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TO REVIEW THE IMPLEMENTATION OF THE PEANUT PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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CONTENTS

TO REVIEW THE IMPLEMENTATION OF THE PEANUT PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

TUESDAY, MAY 2, 2006

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:36 a.m., in room SH–216, Hart Senate Office Building, Hon. Saxby Chambliss, chairman of the committee, presiding.

Present or submitting a statement: Senators Chambliss, Lugar, and Dayton.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman CHAMBLISS. This hearing will now come to order and good morning.

First of all, let me must say to my colleagues up there and to the folks in the audience, we have been presented with a nice little gift here. Mr. Bell from Bell Plantation in Tifton, Georgia, has given us a little gift box here, gentlemen, that contains some products that they are making there at Bell Plantation and we appreciate very much your thoughts here, Mr. Bell. I assure you, since we get our hands on it before staff does, we may get to enjoy them rather than staff.

[Laughter.]

Chairman CHAMBLISS. We welcome everyone this morning to our hearing to review the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002. I would like to thank our witnesses for the time, trouble, and expense that they were willing to incur today to help us obtain a sector-wide review on the peanut program. In addition, I would like to welcome members of the public attending this hearing, as well as those who are listening through our website.

The peanut provisions in the 2002 farm bill were a radical departure from those authorized in past farm bills. Congress repealed the Depression era quota system, which dates back to the 1930's and which limited the amount of peanuts that were allowed to be marketed for domestic food use and dramatically altered the entire peanut sector. Although the old program had served the industry well for many years, many felt the program needed to be changed and refined to an ever-changing global marketplace.

As many of you remember, changing a 60–year-old program was not an easy feat. The quota program was intricately intertwined in the roots of many small communities from Virginia and Georgia to Florida over to Texas and Oklahoma. Although some producers were understandably reluctant to accept change, the majority recognized the need to respond to the pressures of the market.

As a result, policymakers were able to rewrite the direction of Federal peanut policy. In a historic moment, all facets of the peanut industry reached a united provision that allowed us to move the industry in the next generation.

I would just like to add a personal note here that that took a great deal of fortitude and commitment on the part of folks involved in the peanut industry. We have not always had the cooperation of growers, shellers, and manufacturers in the peanut industry and the history of the program was that there was a lot of, I don't know exactly what word to use, but there was not always total agreement between those three sectors of the industry, particularly in my State, which is the largest peanut growing State. And while I had friends on all sides of the issue, it was a delicate line that we had to walk.

But from one segment of the growing part of the country to the other, from one segment of the sheller industry to the other, as well as the entire manufacturing community, it came together in really an unprecedented way and allowed us to proceed in a very positive way in the last farm bill. I have told my friends in each segment of the industry over the years that I appreciate that commitment, but I want to say that again publicly today.

The fact is that while I came under a lot of criticism from a lot of my growers who thought that the program we wrote in 2002 was the wrong direction, virtually 100 percent of those growers have come to me since then and agreed that we were right and they were a little bit emotional in some of their comments and some of their way of thinking in 2002. I think the fact of the matter is that the 2002 farm bill has worked very well from a peanut perspective and has been a very positive bill.

The new program allowed producers to transition from the old quota program by providing compensation to quota owners and users while establishing a three-prong program that is similar to the programs available to producers of many other commodities. With the establishment of direct payment, countercyclical payment, and marketing loan programs for peanuts, today's peanut program allows producers to be more competitive in the marketplace both domestically and abroad.

The program has worked largely in the manner that was envisioned in 2002, and since then, numerous producers, especially those who were reluctant to accept the historic changes, have told me that the program is working well.

That is not to say, however, that the program has worked perfectly. Those areas which historically have produced peanuts have shifted to other areas since the enactment of the 2002 farm bill. Acreage in many traditional peanut producing areas has shifted both within States and across State lines and there has been a significant expansion of acreage in new producing areas.

Unfortunately, the new peanut program has not been free of challenges. Under the Marketing Quota Program, peanut prices were largely determined by government policy. Under the new program, which allows the marketplace to determine peanut prices, timely and current market price information for peanuts is lacking. This is understandable because of the small number of U.S. peanut producers, sporadic sales, and the absence of a market exchange. However, the lack of such timely market information has complicated USDA's task of implementing the program, particularly the establishment of weekly loan repayment rates, which is vital to ensuring that U.S. producers are competitive in the export market has proven to be a substantial challenge.

I look forward to hearing from all sectors of the peanut industry this morning. I am hopeful that the witnesses' testimony will help us all gain a better understanding of the successes and problems facing the industry today.

Before I turn to the first panel, I would first turn to my colleagues for any opening statements they wish to make. Senator Lugar, any comments?

STATEMENT OF HON. RICHARD LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you, Mr. Chairman. On my farm, we are not able to grow peanuts, so I have always approached the peanut hearings with a sense of eagerness to learn much more about the industry from my colleague, the Chairman, and from the distinguished witnesses. We very much appreciate each one of you coming today and we look forward to a great learning experience.

Chairman CHAMBLISS. Thank you. Under the new program, Senator, you can grow peanuts in Indiana. It is just that we don't want you growing peanuts.

[Laughter.]

Senator LUGAR. Maybe that is what I will learn today.

Chairman CHAMBLISS. We don't grow soybeans and corn in Georgia, but seriously, that is one thing about the program, the new program, is a lot of folks in other areas outside of traditional peanut areas can grow peanuts.

Senator Dayton?

STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA

Senator DAYTON. Mr. Chairman, thank you. I apologize in advance for having to leave just before ten. The Homeland Security Committee is marking up this Hurricane Katrina report. But I just want to say, I don't know of anyone who is a stronger proponent for a commodity in his home State than you, sir, starting with these, which are available at all of our hearings. I try to be as good a proponent for my State, but one of our favorite Norwegian foods is lutefisk, which, for those who don't know, is cod soaked in brine, and I can't quite get the same enthusiasm in the committee or whatever for that product as you.

[Laughter.]

Senator DAYTON. I just salute you for that. You also have been very gracious and fair as a committee chairman on behalf of all the

different commodities that do reflect the diversity of agriculture throughout our country, and I thank you for that, as well. Thank you, Mr. Chairman.

Chairman CHAMBLISS. Thank you. You need to bring some of that cod to meetings from now on. We will pass it around and see what reaction we get.

Senator DAYTON. You will get a reaction.

[Laughter.]

Chairman CHAMBLISS. Our first panel today is a longtime good friend, Mr. Floyd Gaibler, who is Deputy Under Secretary of Agriculture for Farm and Foreign Agricultural Services, obviously located here in Washington, D.C. Floyd, you have been here many times. You have been a great advocate for agriculture at USDA and we are always pleased to have you here and we look forward to your comments.

STATEMENT OF FLOYD GAIBLER, DEPUTY UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. GAIBLER. Thank you very much, Mr. Chairman and members of the committee. We appreciate the opportunity to appear before you today and share information that the Department has obtained from our experience in administering the new peanut program over the last 4 years and suggest what we think are some areas of attention.

As you are well aware, the aim of the Congress has been to make commodity programs more market oriented. And, as you mentioned, the 2002 farm bill significantly modified the peanut program, shifting it from a rigid two-price program with quotas to one providing more farmer flexibility along with direct countercyclical and marketing assistance loan program payments.

While we have had few problems in the direct and countercyclical payment programs, one of the most perplexing questions of the merge is why the Marketing Assistance Loan Program for peanuts does not function like that of the marketing loan programs for other commodities. That is a very high proportion of our annual peanut program is placed under loan and very little use is made of loan deficiency payments. Our conclusion is that the storage and handling payments encourage heavy loan placements and that some holdover industry practices from the previous program era impede price discovery.

Price discovery is important to the administration of all of our marketing loan programs because it provides the requisite information for establishing an accurate loan repayment rate. However, the peanut industry has not traditionally operated in an open market environment. Thus, there is no readily available transparently established market price for setting the loan repayment rate as exists for other commodities.

This largely results in the widespread use of contracting, the primary method of marketing peanuts. Peanut shellers and peanut growers enter individual contracts, often before planting. These option contracts provide little in the way of publicly available price information, and dependence on them precludes the emergence of a cash market in an industry with so few buyers.

In trying to establish a loan repayment rate or a National Posted Price, one source of information we explored using was the Weekly Agricultural Marketing Service Shelled Peanut Report. However, several problems have emerged when we examined the information contained in this report. Particularly, the information is based on a low volume of transactions with a thin market and the potential exists for manipulation of reported prices through this selected reporting of trades that occurred.

In our view, the only dependable source of price information is the National Agricultural Statistics Service Agricultural Prices Report. NASS reports monthly average prices received for farmers in shelled peanuts, which includes option prices paid to farmers. However, NASS only reports a single price that encompasses all types of peanuts and does so only once a month, which may reflect a several-week lag in actual transaction prices.

Another major factor that negatively affects the loan program operations is the provision for peanut storage and handling costs for all peanuts under loan through the 2006 crop year. This benefit is generally not available to producers of any other covered commodity. To capture the peanut storage and handling subsidy, peanut shellers offer option contracts that both require producers to place peanuts under loan at harvest and allow shellers to redeem the peanuts from under the loan at will.

We believe this provision inhibits price discovery and the administration of the marketing loan program for peanuts and further facilitates the industry's reliance on option contracts rather than actual cash markets. I think it also helps to explain why the outlays for these payments are so much higher than the estimate that was originally provided by the Congressional Budget Office for this aspect of the program when it was implemented.

Expiration of the provision of mandating these payment of storage and handling costs, in our view, would help the peanut industry adjust to the Marketing Assistance Loan Program and allow it to function in a manner more consistent with those of other commodities, resulting in lower loan placements and a greater use and availability of loan deficiency payments.

In addition, our experience with operating the Marketing Assistance Loan Program for peanuts suggests that a shorter loan duration for peanuts would improve program functionality. Currently, marketing assistance loans for peanuts and other program crops have a term of 9 months. Shortening the term to no more than 6 months with an expiration date of June 30 each year would mitigate the market conflict that we now have between old and new crop peanuts. June 30 was the date used in the prior peanut program and we believe this change would encourage peanuts from the previous crop year to be moved into market before the start of the harvest of the new crop.

Finally, most of the criticism that we have heard and seen focuses on the determination of the National Posted Price. Some in the industry have argued that the National Posted Price is too high to allow domestic producers to compete in the export market. However, we believe these arguments fail to recognize that the peanut program was fundamentally changed from a two-tier price support program to a single price program for all peanuts.

The National Posted Price is intended to be a market clearing indicator for all peanuts, regardless of end use. As such, the National Posted Price reflects the combined value of all end users as revealed by the market price and does not seek to direct peanuts to one market over another as was true in the previous program. The current program does not distinguish peanuts by end use or destination.

And were USDA, as has been requested, to intentionally reduce the repayment rate to capture additional exports, it is our view that it would likely present World Trade Organization concerns. Analysis by USDA Foreign Agricultural Market Service indicates that the systematic decrease in the National Posted Price would also capture few additional exports and that this minor gain in export sales would come at significant cost to the taxpayer.

An examination of U.S. peanut trade data indicates that the U.S. is not losing export markets under the new program, but nor are we experiencing any significant levels of imports. U.S. peanut exports have remained at or around 250,000 tons annually since 2002, on a par with export performance during many of the preceding years.

In summary, our 4 years of experience in administering the Peanut Marketing Assistance Loan Program and working with the industry allow us to offer some suggestions that we believe would enhance the operation of the program. These include exploration of an incentive-based or mandatory price reporting system, allowing the exiration of storage and handling payments after the 2006 crop, and shortening the maturity loan from 6 months with the term expiring on June 30 each year.

As we have in the past, we stand ready to work with you, others in Congress, and all segments of the peanut industry in developing reliable and consistent market price information to assist in the more effective operation of the Peanut Marketing Assistance Loan Program.

Thank you for your continued support of USDA programs and allowing us to share our views with you on these very important issues. Thank you, Mr. Chairman.

Chairman CHAMBLISS. Thank you, Mr. Gaibler.

[The prepared statement of Mr. Gaibler can be found in the apendix on page 30.]

Chairman CHAMBLISS. Since implementation of the 2002 farm bill, the administration of the peanut program has shifted away from the Peanut and Tobacco Division at USDA. Who is actually administering the current program, and is there any particular reason for that change away from the Peanut and Tobacco Division?

Mr. GAIBLER. I can't tell you the reasons for the change because that occurred prior to my coming to the Department in this position. However, that function is primarily conducted in the Farm Service Agency, by the Economic Policy and Analysis Staff. They are composed of economists that are very familiar with the industry and are responsible for actually making the determination week to week of the National Posted Price.

And I would just also say parenthetically that we have looked at this issue from a broad perspective. We put together a task force in 2003 that involved people from the Office of Chief Economist,

our World Agriculture Outlook Board, the Foreign Agriculture Service, Economic Research Service, and the Agricultural Marketing Service. We brought together all the expertise the Department has in trying to figure out how best to administer this program.

Chairman CHAMBLISS. Do we basically do that with all programs in the commodity title?

Mr. GAIBLER. Yes, in a similarl fasion. We have officials within the Farm Service Agency, beyond those in EPAS, some in other divisions of the Farm Service Agency. But again, they are all people who have expertise in the programs, and the markets and the commodities that they are dealing with.

Chairman CHAMBLISS. In your written testimony, you indicate in the course of the 200 crop year for peanuts, USDA paid $50 million in marketing assistance loan benefits even though other supply and use factors for the crop year suggested a robust market. Could these benefits be attributable to growers slowly adjusting to the new program?

Mr. GAIBLER. Well, When the program was initially implemented, we were faced with the conundrum of what actual kind of market prices that we could use and should use in trying to determine the loan repayment rate. The initial decision was to use the AMS shelled prices, and that was used in the initial implementation operation of the program. But it became clear, to the analysts and others who monitor this that the loan repayment rate was going down rapidly when all other market and supply-demand indicators, suggested that prices should be at a higher level. So this led the agency to take a different look at how we implement this program and the decision was made then to make an adjustment and to place more reliance on the NASS price, the in-shell farmer price.

Chairman CHAMBLISS. I share the same concern you do on this issue relative to virtually 100 percent of peanuts going into the loan. I think that is one of the provisions in the new program that is an unintended consequence of the program and we have got to figure out a way to ultimately get out of that because I think it has caused more problems than it has benefits.

But one of the problems I see is that you have got a little bit of a catch–22 situation in that you attribute the fact that so many of the peanuts are going into the loan in part to the storage and handling fees being paid under the program, and that may be right. But if you had no storage and handling fees paid under the program, then we know who is going to pay those storage and handling fees and that is the farmer, which means they are going to have smaller contracts than they would have otherwise. So if they have smaller contracts that are below the loan price, because most of these contracts now are in the range of the loan. So if they are going to get less, there is going to be more incentive on the farmer to put peanuts under the loan.

So I am a little bit puzzled as to how we should address this program as we think about rewriting this title to, No. 1, encourage more sales under contract versus more of the crop going into the loan, and I am not sure that elimination of storage and handling fees is the solution to that. I understand you have another portion of that which is shortening the loan time period from 9 months to,

I believe, to 6 months is what you recommend. Again, I don't know that even the combination of those two would be the total answer. Any comments you want to make on that relative to what we ought to be thinking about?

Mr. GAIBLER. Well, I do believe that shortening the loan period, in reference to your last comment, would make a lot of sense. We reference in our testimony, how we think that some of the industry practices should be modified. But this is a case where we think the practice that was conferred and utilized under the existing program makes a lot of sense. I think there is at least some majority level of support for doing that. The primary reason for, I think, not doing it is that the Committee and Congress obviously aren't going to take on trying to make that kind of change unless there is some industry consensus.

With respect to the storage and handling payments, the only thing that is really comparable there is the cotton program. The cotton program offers a recourse loan for seed cotton and a non-recourse loan for the lint. So the cotton ginners typically take that seed from ginning as payment for the ginning process, so the cotton farmers actually pay for the ginning of their cotton through that foregone seed revenue.

So if you made a change in the program and the marketing loan were operated similar to cotton, we would have to offer a recourse loan for the in-shell peanuts and a non-recourse loan for the shelled peanuts.

But I do think that there has to be some recognition of the problems that the option contracts, as they are currently structured, provide, because they do require the producers to put all their peanuts under loan as part of the contract. I believe if we can get away from that process and encourage more on-farm storage by the peanut producers themselves or through these cooperative marketing associations who can take in peanuts and market them on behalf of a number of peanut producers, it would be another avenue as a means to transition.

But again, we are willing to look at options and try and figure out how we can make this transition work most effectively.

Chairman CHAMBLISS. That is an interesting concept, thinking about shelled versus unshelled. The cotton is a little bit hard to compare because ginners usually take the seed for the ginning costs. It is usually an offset there unless there is some high demand for seed, which there hasn't been in the last several years, and I am not sure we would have that same scenario with shelled versus unshelled, but I see what you are saying.

Current farm law requires the Secretary to establish a repayment rate for commodities that minimizes forfeitures, accumulation of stocks and storage costs, and allows commodities to be marketed competitively in domestic and international markets. It appears that the Secretary is determined that the county posted price for grains and oil seeds can be used to establish a repayment rate that meets the criteria in the statute. For rice and cotton, the repayment rate is not solely based on U.S. domestic price because it would not result in a repayment rate that achieves the objectives stipulated in the statute.

The peanut industry has expressed concern that the current method of calculating a repayment rate for peanuts is not achieving the objectives in the statute. Please explain how the repayment rate is currently calculated and what additional authority and/or data, particularly international price data, would be necessary to enable the Department to calculate a repayment rate that more accurately reflects rural prices and allows U.S. peanuts to be marketed more competitively in domestic as well as international markets.

Mr. GAIBLER. The process uses a mathematical formula that tries to draw on all available price information, particularly the NASS price, also the AMS shelled price. We have tried to look at international prices, but we have found them to be infrequent, we are unable to determine whether they are just price quotes, or are they tied to an actual sale. We had an independent third-party consultant look at this sale and their observation was that the international prices were not reliable and that we should not focus on international prices.

We have a different situation with rice and cotton in that there are more established international prices for them to rely on in terms of their calculation.

We still come back to the fact that if we can get a price that reflects what farmers are receiving for their payments and obtain more robust price information, more frequently, on a weekly basis instead of a monthly basis, and have reported by type, as opposed to all general peanut price, we believe that that would help much improve the NASS price series. It would help in some instances keeping it from being overinflated because it does encompass all peanut types. The higher-value peanuts are factored in and it is very hard to factor out the value of the higher-value, for example, Virginia peanuts with the lower-priced runner peanuts.

So if we could get prices differntiated by type, we could have a more accurate reflection of what the market price is and we would also obtain it on a more frequent basis so that when we do make adjustments, they are more timely and we would be more closely following the market. And I think that would help clear the market and we would not be in this conundrum of having potential forfeitures.

Chairman CHAMBLISS. I am assuming from what you said earlier that it is your thought, and I kind of agree with this, that if you have fewer loans, or fewer peanuts going into the loan, and more sales, then you are going to have more data from which to have a posted price. So the one is tied to the other.

Mr. GAIBLER. Yes. There is really some circularity there and then that makes it much more difficult. We also have actually brought in the industry to meet with experts from the Commodity Futures Trading Commission, the Chicago and New York Board of Trade, to see about the potential for establishing a futures price that could be another reference point that we could work with. I think that we are not there yet, but I think it is something that we should continue to explore, as well. So there are a whole number of avenues I think we need to continue to work on.

Chairman CHAMBLISS. I have talked with both the Board of Trade and the Chicago Mercantile folks over the last several years

about the potential for having an option contract on peanuts, and particularly as we were talking about the change in 2002, and there doesn't seem to be a way to do that at this point in time. But as we look at the next farm bill, I think we ought to again explore that to see if there is the potential for that.

Senator Lugar?

Senator LUGAR. Thank you very much, Mr. Chairman.

I am curious. I think your testimony indicates that domestic demand for peanuts has increased in recent years, and since the 2002 farm bill, perhaps because of more innovative products and ways in which peanuts are marketed to consumers. In the same period of time, exports have declined from about half, by and large, and you attribute that essentially to the price being too high. Of course, prices go up and down in export markets over the years as they do domestically.

But characterize overall just from your standpoint, what is the status of the industry? Is this a growth situation? Is it one of stability in which people who are involved in it now essentially will continue to be involved and produce about what is required? Can you give any feel for whether this is a—it is not a dynamic market, but what growth potential is there, either domestically or abroad?

Mr. GAIBLER. Yes, Senator Lugar, you are correct. The modifications made by the 2002 farm bill have produced, I believe a much more vibrant industry. Food use has typically been about 50 percent of the annual outtake of peanut production and we have seen that grow 15 percent since the implementation of the new program.

I think it has created the opportunities for entrepreneurs like Mr. Bell here today, who would not have had the ability to come up with up to 20 new products that he is trying to develop, or has developed and is trying to expand the niche markets of these products. So we think that is very productive. We have also seen that the production has shifted and it has shifted to the areas where there is more productive soil. We have seen a very sharp increase in peanut yields. So it is a better allocation of economic resources that are being applied out there in terms of the production of peanuts.

With respect to exports, again, peanuts have traditionally been a residual market for this industry. They average about 15 percent of the total annual offtake, and we have seen that one of the positive things is that imports dropped to almost nothing as a result of that program. So while some of what we have lost on the international market, that has been offset, primarily because imports have dropped dramatically to less than 1 percent of their previous levels.

I think there will always be an opportunity for the export markets, that we do have a strong competitor out there in China, and China has expanded their production and their exports. Their quality, as I understand it, is not quite as good as ours and a lot of what is traded on the world markets is the lower-value crushed peanuts for use in meal and oil markets. But again, Mr. Bell has the right idea, not only trying to introduce new products in the domestic market, but he is also trying to find opportunities in the export markets. He has come to the Department with a very concise marketing plan and we are going to try and help them. I think this

should be an encouragement and fostering of the industry to do a lot more of those Kinds of initiatives. Given the potential amount of peanuts that Mr. Bell has told me he could utilize, marketing his products would represent a lot of the surplus that people are concerned about with today.

Senator LUGAR. How would you characterize the flow of information, cooperation, however you want to describe it, between growers and people like Mr. Bell, who are manufacturers, users of the product? In other words, is there a pretty good rapport so there is an understanding of what is best for the entire industry from the time of growth, the types of peanuts, that there are varieties, the location of them, the logistics of moving them? I am just wondering how much infrastructure of information there is.

Mr. GAIBLER. Well, I can't tell you a lot of the specifics, but I had the opportunity to meet Mr. Bell at an industry meeting that has involved a lot of the producers. He has set up a corporation of which farmers, peanut farmers are actually members. He has a very unique idea of trying to provide what he describes as an industrial rate of return, something beyond just a normal market-price returns. He has had a lot of interaction with the industry. I would have to defer to others as to how specific it is, but I think he is on the right track here.

Senator LUGAR. Let me just dwell on two points that you have made that are, I think, critical, and this is the price finding situation in one form or another. That seems not to be absent from the process now, but nevertheless, you have tried to tweak the system to get some indicators going at some point. And the other factor, storage costs, as you suggest, might be dispensed with under certain circumstances. How are the storage costs incorrect? Who has those costs? Who receives the money? What is the process currently?

Mr. GAIBLER. Under the 2002 farm bill, the provision was made to provide storage and handling costs to whoever would be storing and holding and warehousing the peanuts. Since there is little on-farm storage, those payments primarily go to the buying points or the warehouses of the peanut industry. The biggest portion of it is the handling charges. The storage charges are very minimal, I think in the neighborhood of $2.71 a ton.

And the fact that we have a 9–month loan, again, creates the opportunity for and the incentive, frankly, to keep them under loan longer than they might otherwise be and that has resulted in the costs going up much more than either the Department or the Congressional Budget Office has estimated. I think it has had some unintended consequences in terms of adding costs to the program but also impeding our ability to obtain the price discovery information that we need.

Senator LUGAR. The payments now being made in the chart you furnished to us for storage and handling are $124 million in the 2006 situation, which is a third of the whole cost of the program. The direct payments are $61 million, the countercyclical $165. So the storage and handling is a very large part of it.

The point you are making is if, I gather, you have greater price discovery to begin with and less reliance on revenues from storage

and handling, more of the peanuts would move so they would not be stored and handled and rehandled and so forth.

Mr. GAIBLER. Right.

Senator LUGAR. You sort of made that point gently, but an economist sort of looking into this situation who is not a friend of the family would say, well, this is sort of axiomatic in a market. You have to have price discovery. There has to be enough movement and activity so that you are not consumed, really, just in what amount to the administrative costs, which in this case happen to be the storage and handling situation.

You have suggested several reasons, and I will not reiterate those, but it is essentially the burden of your testimony today that as we look at the farm bill coming up, this is the area in which we should concentrate and maybe spend more time trying to find out why the price discovery really doesn't work at home or abroad, for that matter, for us, at least, for our peanut growers, and likewise, how we can mitigate the storage and handling fees, because this is money that doesn't go for growth or for incentives or really for income maintenance particularly.

Mr. GAIBLER. Yes. Senator, these are issues that we have struggled with throughout the implementation period since the beginning of the farm bill and we have had robust and quite interesting conversations with the peanut industry on these issues. I think we still have some fundamental differences of opinion here on some of these issues. But we do think that we do need to try and correct and improve the ability to make these programs work as the Congress intended. So these are considerations that we will continue to work with the industry and Congress on.

There are some considerations, I believe, that you could take into account as you reconsider the 2007 farm bill, but I don't want to give you the impression that these are formal policy recommendations that relate to the 2007 farm bill. These are just ongoing considerations that we have experienced and dealt with over the last 4 years.

Senator LUGAR. Thank you very much. Thank you, Mr. Chairman.

Chairman CHAMBLISS. You mentioned this, but I think it is significant to note that the imports have decreased dramatically and I think that truly is a positive sign and it is a sign that when we negotiated the 2002 farm bill between the three groups, that the manufacturers said that if we do this, you are going to see us using more domestic peanuts than we have in the past and that is exactly what has happened, which has been good.

I think we have got to figure out a way to make sure that our manufacturers not only continue to grow their purchase of domestic peanuts, but that the purchase of those peanuts increases, particularly in light of the fact that this year, we are going to see an increase in the peanut planted acres. In my State, we are going to lose some cotton acres and see an increase in peanuts. I am not sure what the rest of the country is doing, but we have got to continue to try to make sure that the market is growing from a policy standpoint.

We talked about shelled versus unshelled peanuts. I am told that, currently, the price for farmer stock peanuts is going up and

the price for shelled peanuts has currently been dropping. Does that seem inconsistent in some way to you, particularly in light of what we are talking about relative to the loan issue?

Mr. GAIBLER. Well, yes, and this has occurred over time historically where we have seen the NASS price going in one direction in conflict with where the shelled price is going. So that has concerned us because when we look at the other market fundamentals of supply demand and reach a conclusion, obviously, one of those price factors is out of sync. It has been a perplexing challenge to us in terms of what price should we be focusing on, which one do we think is right, and which one should we try and improve upon and represent an accurate portrayal of where the market is heading and reflect that in an actual loan repayment rate.

We have tried, again, very hard to look at what the industry has suggested with the AMS shelled price. We had a third-party consultant provide an analysis. They recommended using the shelled price. I actually had staff put the formula they suggested in place and recalculate the loan repayment rate under that formula. But what we found was that we ended up having a very huge outlay of marketing loan gains that would have occurred under that program. At the same time, we incurred 106,000 tons of forfeited peanuts and the cost of disposing of the peanuts and the marketing loan gains was over $30 million less than what would have occurred under using the AMS shelled price formula.

That gave us great pause, so we again came to the conclusion that we think the NASS price is probably the one that is probably best price to utilize. It is the price that we use to calculate our countercyclical payment for farmers and it is the price farmers receive. This is the program for farmers. We believe that is the correct price. And again, I think if we can achieve the robustness that we need from that in terms of weekly price information, and by type of peanut, I think we could go a long way toward getting away from this price discrepancy that shows up in different price series.

Chairman CHAMBLISS. I am not sure what the answer to this is. You have got some very smart folks down there at USDA, I know, that are thinking through this. As we go into the next farm bill, we need to see if we can set some policy in the farm bill that is going to help be able to establish this price.

As I think about other commodities that you compare us to, in peanuts, we have got competition from Argentina and China on the world market. You are right, the quality of our peanuts is better than both those. Argentina is getting better and better, getting pretty close to our quality. But by the same token, you have got corn that is grown in Senator Lugar's State that is better in quality than, I think, the competition is putting out there, even though countries like Brazil are getting closer, but we have got other issues that factor into the corn market and yet we are able to establish a price there. A lot of that, I know, has to do with the futures markets and what not. But I hope we are able to help you from a policy perspective to establish those prices.

In looking at the chart that you were talking about where we see the handling charges increase, you have got decrease in direct payments as you see increase in storage and handling. You have got some change in the countercyclical payments. You have got, again,

the marketing loan changes that virtually go to this year you are going to have a little bit of expense. You have got a projected 2007 of zero. LDPs virtually are non-existent.

Is this the way that the—well, let me rephrase that. What is the best scenario in looking at these numbers that the Department would like to see? In other words, would you like for direct payments to correlate in some way to storage and handling fees? Would you like countercyclical payments. You have got, again, the marketing loan changes that virtually go to this year you are going to have a little bit of expense. You have got a projected 2007 of zero. LDPs virtually are non-existent.

Is this the way that the—well, let me rephrase that. What is the best scenario in looking at these numbers that the Department would like to see? In other words, would you like for direct payments to correlate in some way to storage and handling fees? Would you like countercyclical payments to be increased as you have other payments decrease? What is the best scenario from USDA's perspective?

Mr. GAIBLER. Well, Mr. Chairman, I think, again, as we mentioned in the testimony, we don't think we see any real problems with the direct payments. As you know, they are fixed. They are decoupled. So they are fairly static in the amount year in and year out for peanuts or any other of the program commodities.

The countercyclical payment, again, is based off of the NASS prices. They use the season average price. I think that works fairly effectively.

I think the problem is that we need to see more ability of the farmers to take advantage of the marketing loan programs. The marketing loan programs are designed to provide the opportunity for farmers to take advantage of putting a commodity under loan during harvest time if he or she prefers, or in lieu of putting it under a loan and capturing a loan deficiency payment when prices are typically depressed around harvest time. The other option is if you put it under a loan, to receive a marketing loan gain.

Since peanuts are put under loan right away, there is very little use, then, of the ability for a loan deficiency payment and that is why you have such low numbers there. In terms of the marketing loan gains, under the option contracts, the producer gets a set price. He gets the loan rate plus an option payment above that, but then he transfers the right of redeeming that loan to the sheller so that any marketing loan gain that is captured is not captured by the farmer, it is captured by the sheller and that is not the intention of the commodity programs. They certainly don't operate that way for the wheat, corn, soybeans that I am familiar with from my farm in Nebraska.

I think what we really need to see is, again, a better price discovery series and the ability for farmers to have more flexibility to make more decisions and to avail themselves of the ability to take a loan deficiency payment or a marketing loan gain. The fact that we don't have good price discovery, makes it very difficult to calculate what the magnatude of outlays and they are not going to be as variable as they are with other commodities.

Chairman CHAMBLISS. Last, one of the major considerations that we are going to be thinking about in writing the 2007 farm bill is

what consideration we need to give to the WTO, particularly in light of the fact that it looks like it is going to be very difficult now to achieve even general modalities relative to agriculture. In looking at your chart again, there are certain of those payments in there that, without question, are in the green box. Some of them are in the amber box. Is the Department going to have any recommendations relative to any of the portions of the current program as it might potentially fly in the face of current WTO regulations?

Mr. GAIBLER. Well, I have to be circumspect here, Mr. Chairman, and not get too far out on a limb here. Obviously, the administration has put forward a very aggressive proposal, as you well know, before the WTO, and clearly, that proposal does make a dramatic cut in the amber box, the trade distorting subsidies that would involve the marketing loan programs. But that only will occur if we can get effective, real market access for our commodities, and without that, without getting a robust agreement in the WTO, that is going to change the reflection of how we approach the farm bill. Obviously, it will have the same reflection on how the committee is going to deal with the 2007 farm bill depending on what the outcome of the Doha Trade Development Agenda.

But I think that if we are successful and we do reduce the trade distorting subsidies down from 19.1 to as much as 7.6 million under our proposal, that would obviously force us to drastically rethink the structure of the price and income support programs that we would provide for farmers because we are simply not going to have enough room left to continue to include the costs of the marketing loan programs for all of our program commodities, nor the costs incurred by the sugar program and the dairy program that are counted as part of our total aggregate measure of support.

Chairman CHAMBLISS. As I said earlier, I am still somewhat hopeful that we can achieve some agreement within the WTO, but I think with the attitude of the EU being what it is today, the chances of that are not very good.

Anything else, Senator Lugar?

Senator LUGAR. I would just underline again, Mr. Chairman, what really has been sort of the theme of the testimony, that whether we have a robust marketing loan program or an LDP after Doha or with Doha, both of those things really depend upon the price finding mechanism. It would be hard for me to imagine, as somebody who sort of avidly reads the ag newsletters every day as well as the Wall Street Journal or what have you and looking for the corn price or the soybean price, to be denied that opportunity if I were in the peanut business. This seems to me such a glaring difference and one that is not helpful if you are a grower, not to have those options. So part of our work, it seems to me, working with you and the staff of USDA, economists, others that you bring into play, is to figure out really how to make headway on this subject.

But I appreciate very much the testimony of Mr. Gaibler and his service to the Department for some time. Thank you.

Chairman CHAMBLISS. Mr. Gaibler, thank you very much. We look forward to continuing to stay in touch as we go through this in preparation for the next farm bill.

Mr. GAIBLER. Thank you again, Mr. Chairman, Senator Lugar. I appreciate the opportunity to be here.

Chairman CHAMBLISS. Thank you.

Chairman CHAMBLISS. Our second panel that we will ask to come forward at this time is Dr. Stanley Fletcher, who is at the National Center for Peanut Competitiveness, the Department of Applied Economics, a professor at the University of Georgia. He is located in Griffin, Georgia. He is accompanied by Mr. Armond Morris on behalf of the Georgia Peanut Commission and Mr. Jimbo Grissom on behalf of the Western Peanut Growers Association.

We have also Mr. Evans Plowden, General Counsel of the American Peanut Shellers Association, and Mr. Gary Rasor, consultant with the American Peanut Products Manufacturers, Inc., of the J.M. Smucker Company from Orville, Ohio.

Gentlemen, we welcome you here today, and Dr. Fletcher, we will look forward to any comments from you. Mr. Plowden and Mr. Rasor, certainly Jimbo and Armond, any comments you all want to inject into it, you are welcome to. Welcome to all of you.

Stanley, we are glad to have you back and we appreciate your comments here today.

STATEMENT OF STANLEY M. FLETCHER, PROFESSOR, DEPARTMENT OF APPLIED ECONOMICS, UNIVERSITY OF GEORGIA, AND DIRECTOR, NATIONAL CENTER FOR PEANUT COMPETITIVENESS, GRIFFIN, GEORGIA; ACCOMPANIED BY ARMOND MORRIS, ON BEHALF OF THE GEORGIA PEANUT COMMISSION, TIFTON, GEORGIA; AND JIMBO GRISSOM, ON BEHALF OF THE WESTERN PEANUT GROWERS ASSOCIATION, SEMINOLE, TEXAS

Mr. FLETCHER. Good morning, Chairman Chambliss and members of the committee. My name is Stanley Fletcher. I am a professor at the University of Georgia and the Director of the National Center for Peanut Competitiveness. I am truly honored today to be invited to present testimony on the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002.

First, like you stated in your testimony, Mr. Chairman, I wanted to commend you and the members of the committee for your willingness to work with your colleagues and a group of peanut leaders to develop a new and more globally market-oriented competitive peanut program. It was a true challenge, as you mentioned earlier, but I feel like I experienced many of the same things you did and I feel like we are on the right road.

However, I am not here today to say that the implementation has been flawless. The new peanut program can be viewed as being successful on the domestic front. In fact, one can observe market forces at work in the peanut sector. There have been significant changes in cropping patterns. Areas have shifted from peanut production while other areas have expanded. We have new areas that have never grown peanuts before. As a matter of fact, when you look at some of the data, we have had some grown up in Idaho and Wisconsin, some of these other places, New Jersey. Basically, what that is, peanut producers are responding to market signals.

During the 1990's, domestic peanut consumption was basically viewed as being relatively stagnant. However, the new peanut pro-

gram, which included the lowering of the peanut price, has allowed the domestic peanut industry to be competitive in the marketplace. Since 2002, U.S. total peanut domestic consumption has increased by 16.5 percent.

With the passage of the trade agreements in the 1990's, the peanut imports were increasing significantly, reaching a high of approximately 100,000 tons of farmer-stalked peanuts, which exceeded the production and sale of our peanut-producing States in 2001. The new peanut program allowed the domestic industry to compete with these imports. In 2005, our peanut import level dropped approximately 83 percent. This clearly indicates the U.S. peanut industry can compete and be successful.

While the U.S. peanut industry can be successful in the domestic market, this does not hold true for the international market. The U.S. peanut industry used to have over 30 percent of the world peanut trade. In 2005, the industry had approximately 13 percent of the world trade. If one looks at the trends since 1992, the U.S. peanut export volume has dropped 54 percent.

The problem does not lie with the peanut program itself. Rather, the problem exists due to the method USDA is using to implement the language of the law.

U.S. peanut exports are highly dependent on a National Posted Price set by USDA. For the 2005 crop year, 98 percent of the crop moved through the loan program. The majority of the peanut crop moving through the loan has an option contract between the farmer and the sheller. If the sheller exercises the option, the price paid to the farmer is the loan repayment rate, which is the lesser of the National Posted Price or the loan rate. Thus, in reality, USDA is setting the market price for farmers.

USDA commissioned a third-party study for recommendations on calculating the National Posted Price. This study recommending using the shelled peanut prices between shellers and processors as the key factor. The shelled peanut prices are the only prices determined from a competitive market environment.

In contrast, the USDA NASS peanut prices reported have serious flaws. The prices they collect do not necessarily reflect the price that farmers actually receive for the peanut crop. Furthermore, there is no separation of prices by peanut type, which is critical.

Thus, shelled peanut prices should be the major factor in the calculation as recommended by the USDA third-party study. This would be a step in the right direction in improving our recapturing our export market.

How does the peanut program work in terms of a safety net for peanut farmers, which is a key component of the program? To address this issue, the Peanut Center has 11 peanut representing farms from the Southeast and is working with the Ag Food Policy Center at Texas A&M, utilizing their FLIPSIM model. On a side note, we have expanded it out to 19 farms representing all the peanut regions in the United States.

In the fall of 2004, the overall economic viability of these farms over the period of 2005 through 2010 was relatively good. However, this past week, the Peanut Center reexamined these farms using the January 2006 baseline information that basically comes from FAPRI and eliminating storage and handling for the 2007 through

2010 crop years. Only one representative farm was in the "good" classification of overall economic viability. One farm was in "moderate" and nine farms were in "poor" classifications. The primary factors were the elimination of storage and handling fees, energy costs, and interest rates. This does not paint a good picture for the long-term health of Southern agriculture and peanut farming.

This concludes my testimony. Thank you very much.

Chairman CHAMBLISS. Thank you.

[The prepared statement of Mr. Fletcher can be found in the appendix on page 48.]

Chairman CHAMBLISS. Mr. Plowden?

STATEMENT OF EVANS J. PLOWDEN, JR., GENERAL COUNSEL, AMERICAN PEANUT SHELLERS ASSOCIATION, INC., ALBANY, GEORGIA

Mr. PLOWDEN. Thank you, Mr. Chairman. I know everybody has talked about how good this program is in comparison to the last one and I don't want to be redundant, but I just am compelled to say to you particularly, because I know you played a large role in converting this industry from the old supply management program to a new viable program, we were before, as you know—and when I say "we," I talk about the entire industry, growers, buying points, shellers, and manufacturers—we were stagnant at best and dying at worst and we are no longer. We are viable. We are growing. We have had some good years with consumption and we feel very good about the industry. I think you deserve credit, this committee deserves credit and Congress does overall. It has been a real success story. So I don't want to minimize that.

We have got a problem. Everybody has talked about the problem. Mr. Gaibler talked about it. Dr. Fletcher talked about it, and I can't but do but talk about it myself, and that is the National Posted Price. It is a problem.

In the early years of this program, we had an empty pipeline. We had increasing domestic demand. The export market then in those years was not all that important. Our increasing demand, our empty pipeline that needed filling masked the problems with the National Posted Price at that time.

We now have a full pipeline. In fact, some would say the pipeline is double-full. Demand has leveled. I don't mean to paint a poor picture of demand. Demand is good, but we could not expect the dramatic increases that we saw in the early years to continue. So the demand has leveled. The pipeline is over-full. Plantings have increased. Farmers have found that peanuts are a good crop for them to grow in areas that perhaps did not grow them before.

So now, we don't have anything—we don't have these boom times that are covering up the difficulties with the National Posted Price. We have got to sell more peanuts. Farmers are growing more peanuts. That is a good situation. We don't want to be satisfied with a stagnant situation. Two-hundred-and-fifty thousand tons in the export market, we are not satisfied to sit on 250,000 tons. We need to grow it. Farmers are growing peanuts. We have got to sell them here or overseas and we believe the National Posted Price is too high to do that.

It is interesting, a number of us have followed the WTO negotiations, the Doha Round, and it is interesting that Ambassador Portman, Ambassador Crowder, Under Secretary Penn, Secretary Johanns are working tirelessly for market access for U.S. agricultural products. Well, fortunately, that is just not a problem with peanuts in our market. We have market access to our major and significant markets.

Our problem, if you want to call it a market access problem, our problem is our price. We can't be as competitive as we need to be to move the peanuts that are being grown and we need a posted price that is going to allow that to grow. Our competitors, particularly China, have a market price that is less than ours and we simply have to be competitive.

We believe, and I think this committee believes, that its language in the statute, that the posted price was to be one that would allow peanuts to be marketed competitively domestically and internationally, was a direction to do just that and we do not believe that it has accomplished what the statute seems to demand.

The Chairman alluded to this a little earlier. The market price for shelled peanuts since about mid-January has been declining, in some weeks declining fairly dramatically. At the same time, the National Posted Price, which is the price, like it or not, that affects the end price, has been rising significantly. That is just a situation that won't work. I think you don't need an economics degree to know that won't work in the end.

I don't attribute ill motives to anybody in setting the posted price. I know it is difficult. It would be easy if there were a futures market, but there is not. We have kind of got to take this industry as we find it. We can't simply change the entire system to suit the methodology of setting the posted price. We are going to have to adapt the methodology of setting the posted price to the system that exists. It may change over time, but we have got to dance with the one that brung us here today. This is the system that we have.

Now, I am compelled to say one other thing, Mr. Chairman and Senator Lugar, that I think is simply incorrect that has been stated in this hearing today and that is two things about options that growers sign with buyers of peanuts. It has been stated repeatedly that the option requires growers to place their peanuts in the marketing loan and that the option gives the buyer the right to redeem the peanuts and pay off the loan. Both of those are simply incorrect.

I have seen a number of options. I have been fortunate enough to be asked to draw one or two. And I have never seen an option that gives the buyer or the person holding the option the right to place the peanuts in the loan. Similarly, I have never seen an option that gives the buyer the right to redeem those peanuts. In fact, I would suspect that if a grower actually contractually agreed to place the peanuts in the loan, there would be a beneficial interest issue and, therefore, ineligible for market loans. So I don't want the committee to leave with the impression that these option contracts between growers and buyers require the growers to put peanuts into loans. That simply is not the case.

I see my red light blinking, Mr. Chairman, and I will hush at this point.

Chairman CHAMBLISS. Thank you, before I raise the gavel on you. But being a lawyer like you and you being my dear friend, I appreciate your concluding your comments at this time. We will talk some more about that issue, though.

[The prepared statement of Mr. Plowden can be found in the appendix on page 52.]

Chairman CHAMBLISS. Mr. Rasor?

STATEMENT OF GARY RASOR, CONSULTANT, ON BEHALF OF THE AMERICAN PEANUT PRODUCT MANUFACTURERS, INC., AND THE J.M. SMUCKER COMPANY, RITTMAN, OHIO

Mr. RASOR. Thank you. I don't wish to be redundant, either, but being the last person to give testimony, I am going to be redundant.

The APPMI members who I represent here have always preferred to buy U.S.-owned peanuts and were appreciative of this new farm bill, which allows us to purchase these U.S. peanuts without limitation. We believe the new marketing loan program has worked extremely well and we strongly support this new program for peanuts. It was designed to make the U.S. peanut industry more competitive and we feel it has succeeded in doing so.

We believe the program has served the entire peanut industry by making each segment more efficient. These efficiencies have allowed the manufacturers to maintain, and in some cases reduce, our prices in the face of sharp increases in other areas, such as energy and packaging. The program has also allowed the manufactures to expand advertising and promotion of peanut products and created a compelling incentive to develop new peanut products.

The new program has led to remarkable increases in both U.S. peanut production and peanut consumption. According to USDA's Stocks and Processing Report, total peanut usage has increased by almost 32 percent since the implementation of the new program in 2002. Increased peanut product consumption is great news for our peanut industry. We believe the usage is up, at least in part due to the additional advertising of peanut products, the introduction of a number of new products using peanuts, and a more favorable impression of peanuts among consumers. Industry research and promotion have touted the nutritional benefits of peanuts and peanut butter and consumers are increasingly recognizing them and recognizing the halo over peanuts today.

The peanut program has delivered clear benefits to the entire industry and the transition into this new program has gone smoother than any of us had anticipated. However, we want to also take this opportunity to discuss the issue of establishment of the repayment rate. We think this committee needs to closely examine the process that USDA is using to establish this since the current approach for setting the weekly price appears to be not including or not factoring in the world market price, as it does for cotton, rice, and other commodities.

The approach has undermined the export market for U.S. peanuts, which has dropped by 40 percent since the implementation of this new program. The statute sets forth clear criteria for administering the repayment rate, and unfortunately, the Department has failed to recognize all of these key factors and its less-than-

transparent approach has caused much frustration and confusion among all segments of the industry. We feel greater transparency in the method of establishing the National Posted Price would allow our industry to improve the decisionmaking process.

Simply put, we feel we need an approach that is easily understood and of use to the entire peanut industry and we also would be willing to work with this committee, USDA, and the rest of the peanut industry to help develop a solution to what has become a 3–year concern about this repayment rate.

The second area we would like to mention is our support for the extension of the payment of handling and storage costs. As you all know, the government payment for these costs expires at the beginning of the 2007 crop. Peanuts are a semi-perishable crop, requiring adequate storage to maintain their viability as an edible commodity. To protect the producers and allow orderly marketing, adequate storage and handling are necessary. The peanut handling and storage feature has been an important part of the loan program and we feel should be restored for the 2007 crop and included in the peanut provisions of the next farm bill.

In summary, we think this peanut program is an excellent program. It has sparked greater industry competition. It has spurred innovation for new products and increased overall peanut consumption. And all segments of the peanut industry—the growers, the shellers, the manufacturers, and the allied partners—are unified in our support of each other and in our support of the current peanut program. We hope you will consider these minor modifications that we have suggested, as we all speak with one voice.

Chairman CHAMBLISS. Thank you, Mr. Rasor, and thanks, Mr. Plowden and Dr. Fletcher.

[The prepared statement of Mr. Rasor can be found in the appendix on page 56.]

Chairman CHAMBLISS. You all talked around it a little bit, but I want to see if we can narrow this down and be specific relative to the factors that need to be considered in trying to establish this National Posted Price. Starting with you, Dr. Fletcher, can you just sort of succinctly give us your thoughts of really how is the best way to establish this National Posted Price?

Mr. FLETCHER. Mr. Chairman, I think that is why we have been kind of dancing around it. There is no clear formula. I have spent many years looking at this, trying to sort through this, and have been asked many times. In my testimony, I do not believe using the USDA's NASS price numbers are an accurate reflection. There are serious flaws in those numbers. They don't actually reflect what farmers are receiving.

There is the data that came from the 1007s that tell you what the farmers received for their peanuts, you know, the 1007 forms, but in the market situation, that, to me, is where I think those shelled market prices—which is what that third-party study that USDA recommended, that they should go down that path. And the interesting thing is that during the trade negotiations in the United States International Trade Commission, which does the analysis for USTR, used shelled prices to convert back to what would be for farmer stock when they calculated the AMS to figure what would be in the green box.

So, to me, those numbers should be the major weight because that is showing what is, you know—because the peanut is not homogeneous. It is a product that is being used in the process of manufacturing a food product. Either it can be—or it maintains its integrity like it is. That is the market where you get that information and that is where I think should be the key component of it.

Looking at what the contracts, because those contracts are signed and which are reported on the 1007, the prices, those could be entered into them. For some reason, the USDA does not want to use the 1007s. And so I think that should be the key aspect in this. The ITC was using it with USTR in our trade negotiations. Then that should be a key basis to it.

Chairman CHAMBLISS. Evans?

Mr. PLOWDEN. Mr. Chairman, we think there are two possibilities that would greatly improve what is being done now. The first is if you have a true open, public market, known market, and we do have that in part of the time. CCC has contracted with an organization in Memphis, Tennessee, called the SEAM that, in fact, auctions to anybody wishing to participate in that auction, auctions CCC-owned peanuts. Those prices are competitive to all comers at the time. They are accurate at the time, not a year ago.

We have seen those auctions in the fall. CCC decided for reasons I am not aware of to suspend them for a while and they began again in, I believe, January of this year and continued through perhaps March, when they had sold their peanuts, or sold all their stocks of peanuts. So that is an open market auction system that provides some pretty good data.

Now, when that is not available within some reasonable time period, we believe that the Department could inquire of people that are in the business—the buyers of peanuts, people that buy peanuts from farmers, what they are paying at the time in a cash market if it existed, which it often doesn't, or what they would pay based on their judgment of the shelled market at the time, what they would pay for farmer stock peanuts at the time. So those are two methodologies that we think would greatly improve the current situation.

I know you understand that we have a circumstance today where the National Posted Price is, in fact, the farmer stock price, and it will always be that unless the market gets above the loan rate. So to report the NASS price is not the true reflection of what the market is today. It is a reflection of what the Department of Agriculture has set the National Posted Price, but we can get into a dog chasing its tail there and that is about what we have.

In summary, we would suggest that the SEAM be significant credit when those—we use the SEAM prices in a significant manner when those prices are available within some reasonable time period, and if they are not, we inquire of buyers of peanuts what they would pay in their view of the current market.

Chairman CHAMBLISS. Mr. Rasor?

Mr. RASOR. I don't think I have anything additional to add. The SEAM does seem to be the most logical approach if that information is available. The second part, trying to get the shellers to report what actual trades are with the growers, is the ideal, but I imagine that has got its difficulties, too.

Chairman CHAMBLISS. Dr. Fletcher, you talked about the decrease in the percentage of export market going from 30 percent to 13 percent. Maybe I should be, but I am not as alarmed over that number as I might otherwise be because of the change in the program and because of the fact that we now have less imports coming in. I think that has got to have a direct impact on our percentage of the export market. Plus, how much of that is attributable to just the fact that the export market worldwide has grown? You have got China and Argentina as major players in that market now.

Mr. FLETCHER. The market has expanded, and while you may say the percentage, I was looking at, like when you talk about the volumes, our volume is not as much as it used to be back in the 1980's and 1990's.

I do think, as I try to track the world prices, it always seems to be that Argentina and China always stay a certain percentage below our price so they can work in. But when you deal with a good quality product, you have to be competitive out there and it basically comes down to price. A lot of the European buyers, I have heard many of them say that, you know, if they were a little bit cheaper. They are looking at their bottom line, just like corporate America is. So we are basically priced out of the markets.

I think that has hurt us where we could be expanding, because basically there have been studies by ARS on peanut quality, as you mentioned earlier about U.S. quality. They have shown that even the European consumers prefer U.S. peanuts over Argentina or China. So we have that, but if we keep our prices where we can't enter into it, we lose them, and once you lose a market, it is hard to recapture it.

Chairman CHAMBLISS. If we saw a reduction in the price of our peanuts worldwide, do you see that as, under the current system, as being a benefit to farmers?

Mr. FLETCHER. The way the current program is, the price being lowered given what it is today, it probably will not impact the farmers any more one way or the other, but it will help improve our shares, and if we get the markets out there where there is more demand, and some of the companies over in Europe found out that, really, the U.S., they need to stay with it because just like the domestic manufacturers say they prefer U.S. peanuts because there is a certain quality and a known, reliable supply that reduces their total manufacturing costs. Once we get that recaptured, then hopefully that will build a market where then the demand will increase enough that there will be an increase in price down in the long run.

Chairman CHAMBLISS. Who are our primary countries that we now export peanuts to?

Mr. FLETCHER. Our primary ones are Canada, Mexico, and Europe. Those are the three primary ones——

Chairman CHAMBLISS. Has that changed since the 2002 farm bill?

Mr. FLETCHER. Our Mexican imports have increased more. I think our Canadian exports have increased some where we have pushed out with our pricing now that we have for domestic. We were allowed to recapture some of that, just like we are recapturing our domestic market. Canada was using a lot of foreign pea-

nuts, but now they have kind of shifted back into the U.S. because of the pricing and knowing arrival supply and the quality of it.

Chairman CHAMBLISS. Mr. Plowden, you talked about the fact that contracts don't give the buyer the right to redeem the peanuts out of the loan, and I understand that that probably is not in the contract, but let us look at this as a practical matter. Is that, in fact, what is actually happening, though, and is an unintended consequence of the program?

Mr. PLOWDEN. I am not sure I would classify it as a consequence of the program, Mr. Chairman, but in fact, what farmers often do is give powers of attorney to somebody else to handle the paperwork associated with the loan or other FSA matters. And so we do often see a farmer choose to give a power of attorney to a buyer of the peanuts to repay that loan. Yes, that is often the case. But it is not a contractual requirement. If the farmer chooses not to give a power of attorney, then that is fine. The farmer then has to do his own redemption.

Chairman CHAMBLISS. Who are the buyers at these CCC sales and are they different than the buyers in the normal open market?

Mr. PLOWDEN. I think that they are similar, Mr. Chairman. If there are any buyers other than the typical buyers, I am not aware of it. Now, let me say that we have seen in the peanut industry droughts and shortages. I think we would see other buyers enter the market with the SEAM if that should occur. But under SEAM sales ever since August of 2005, I think the buyers from the SEAM are similar to the buyers—or the same, frankly. Now, that does not mean that a buyer buys the same peanuts that are in a warehouse associated with that buyer. There is a lot of cross—a lot of people buying different peanuts stored in different places. But the buyers are the same, yes.

Chairman CHAMBLISS. The storage and handling fee is an issue that we have talked a lot about here today, particularly Mr. Gaibler gave a reference to it significantly in his testimony and says that he thinks maybe the elimination of that for the 2006–2007 crop as currently contemplated by the farm bill is the direction to go. If that does happen, let us talk about, from a practical standpoint, what will happen. Today, the storage and handling fee is paid under the program and it is paid basically to the buyer. Would that be a fair statement?

Mr. PLOWDEN. It is paid to the warehouse operator, Mr. Chairman. To the degree that the buyer operates the warehouse, that would be the same. To the degree that the warehouse is operated by an independent entity, then that independent entity ends up with it one way or another. The payment may, in fact, go to the buyer of the peanuts and then they settle in some fashion with the independent warehouse operator.

Chairman CHAMBLISS. And if that payment is not made under the program in the next 2 years, what is going to happen to the price that the buyer is willing to pay for peanuts to the farmer?

Mr. PLOWDEN. Mr. Chairman, storage and handling are real costs. This is not some fuzzy ghost cost out there. It is a real cost, a significant portion of which goes to Federal inspectors to inspect the peanuts. The grading system in peanuts is costly, so there are significant real costs with handling. There are significant real costs

with storage. These warehouses are expensive, as you know. So somebody has got to pay those costs.

It would seem to me, just from Economics 101, that if we are in a surplus market, that it is going to be more likely that the seller of the peanuts, in this case the farmer, is going to have to incur some of those costs. The warehouse operator is not going to store them for free, not going to pay the inspectors out of their own pocket. So if we have got a growing market for peanuts that are in a surplus situation and we are not expanding our export markets, then I think the economic situation would say that the grower is going to incur those costs.

Now, if that produces a situation that the grower finds uneconomical, then I suppose the grower will stop producing peanuts, which may at some time in the future create a shorter market, in which case goodness knows who will pay that. Shellers may pay it. Manufacturers may pay it. It is very difficult to predict. But the consequences of that would be one of those supply situations that we had before.

I don't want to wear out my time, Mr. Chairman, but I don't want to give an incomplete answer, either. What we don't want to see is a supply situation that lurches from shortages to surpluses. One of the things that is so helpful in our gaining consumption in this country, and Mr. Rasor is more qualified to talk about it than I am, but is some assurance of supply so we are not going to lurch from these shortages to surpluses that we have sometimes incurred in the past.

I say that, yes, if we are in a surplus market, probably the pressure is going to be on the farmer to pay some of that. But we don't want to get the farmer down to an uneconomical situation so that the supply is in danger.

Chairman CHAMBLISS. Dr. Fletcher, you heard Mr. Gaibler talk about a recommendation coming out of the Department to reduce the storage time from, or the loan time from 9 months to 6 months. What effect do you think that would have on the market if that were to be the case?

Mr. FLETCHER. Basically, I don't think that is going to really have a major impact on the market. I think it is just the way the crop is put in, that they will just adjust to it and just the seam within where the forfeitures, if they come, will come at an earlier time. I don't see, you know, it may help some of the warehousemen where they have to, like in the old program if you clean out the warehouse and be ready so they can move that crop out of there so they can be ready for the new one. But I don't see it is going to add a lot of economic, you know, in terms of budget savings, because basically the average loan on some of our surveys has been about five or 6 months anyway for peanuts, or the average length of time from the surveys we have done, you know, the Peanut Center has. So I don't see a lot of impact.

Chairman CHAMBLISS. Mr. Plowden, any comments from your segment of the industry on that?

Mr. PLOWDEN. I would simply add that cleaning out the warehouses may be more theoretical than actual. What we have seen is when peanuts are forfeited, the CCC does not necessarily move quickly to sell them. The peanuts that were sold in March were un-

doubtedly forfeited many, many months ago. So moving the deadline to June 30 or wherever it might be simply means that the peanuts are no longer owned by the farmer if they forfeited. They are owned by the CCC. The CCC requires a contract with every warehouse operator that gives them the right to keep the peanuts there for a very long time. So it may clean out and it may not. History has not been particularly favorable that they will move out expeditiously.

Chairman CHAMBLISS. And the CCC, I assume, has got to make those storage payments in the interim?

Mr. PLOWDEN. That is correct.

Chairman CHAMBLISS. Mr. Rasor, do you see a reduction from 9 months to 6 months having any impact on the manufacturing side?

Mr. RASOR. No. I struggle with the problem still seems to be the fact that the peanuts are sitting in the loan, sitting there too long, and I think that the repayment rate issue, and I think the sooner you can move those peanuts out and recapture our foreign market, the better off the whole industry is going to be. So I think if you can get that repayment rate realistic early enough in the year and get the peanuts back in the export market.

Chairman CHAMBLISS. But from the manufacturers' standpoint, supply and demand is going to dictate when you buy peanuts and how much you buy——

Mr. RASOR. That is correct.

Chairman CHAMBLISS [continuing]. Irrespective of the time for the loan.

Mr. RASOR. That is correct.

Chairman CHAMBLISS. Dr. Fletcher, in your written statement, you stated that the peanut consumption in the U.S. has risen by 16.5 percent since 2002. Do you think that is strictly a result of the lower domestic prices or the other influencing factors, and do you see any trends?

Mr. FLETCHER. Yes. The price had a significant impact, which helped make the products competitive and helped the manufacturers be competitive with their products. Also, what it did was it freed up where there was more research and development going on by the manufacturers and other sectors of new peanut products. We have had many new peanut products out there for the consumer to consume.

Also, at the same time, there has been a lot more research that has been done that has been coming out about the benefits, the health benefits of peanuts. We have had the National Peanut Board with the generic promotion that has put a lot of effort about getting peanuts back on the mind of the consumers. But basically, if it is not out there in the minds of consumers, they are not going to consume the product. But price was considered the key significant aspect that has helped turn this thing around, plus the other aspects of the program that opened it up so we could compete.

Chairman CHAMBLISS. Mr. Rasor, you mentioned that, in your opinion, the storage and handling issue is a critical issue and it should be continued. From a manufacturer's perspective, is there any level of confidence in purchasing peanuts, any greater level of confidence in purchasing peanuts that have been stored in a warehouse versus peanuts that have been stored on the farm?

Mr. RASOR. Definitely, yes. I don't think it is realistic to even think that you could have on-farm storage of a perishable commodity like peanuts.

Chairman CHAMBLISS. I am inclined to agree with you.

Gentlemen, I may have some more written questions that I want to submit to you. Unfortunately, we have got a vote on and I have got about 2 minutes left to get over there. So at this time, I think we are going to conclude the hearing.

Let me say to each of you that, again, I appreciate your willingness to come up and take your time and give us your opinions about how we can improve the program once again as we move into the 2007 farm bill. We do have some challenges here and you guys are on the ground every day with this, as are Armond and Jimbo, and we want to continue to dialog with you and make sure that we continue to do the right things relative to the peanut program.

So I thank you for being here, and at this time, this hearing will be concluded.

[Whereupon, at 11:15 a.m., the committee was adjourned.]

A P P E N D I X

May 2, 2006

Testimony of Floyd Gaibler
Deputy Under Secretary for Farm and Foreign Agriculture Services
United States Department of Agriculture

before the

Committee on Agriculture, Nutrition, and Forestry
United States Senate
May 2, 2006

Mr. Chairman and members of the committee, thank you for the opportunity to come before you and review the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). I am pleased to be able to share information that the Department of Agriculture (USDA) has obtained from our experience in administering this program for almost four years, and to suggest what we see as important areas for attention.

As you are well aware, an aim of the Congress over time in successive farm bills has been to make the commodity programs more market-oriented, i.e., to provide a safety net for producers while minimizing the influence of commodity programs on farmer production decisions and on markets. The 2002 Farm Bill altered the peanut program in that regard, from one characterized by marketing quotas and two-tiered price support to one more like the support programs of other commodities. Previously, marketing quotas limited the quantity of peanuts eligible for sale on the higher-priced domestic food market, while additional peanut production was directed to the export and crush markets.

The new peanut marketing assistance loan program provides support to all peanut producers through non-recourse marketing loans similar to that provided to producers of other commodities. This program allows peanut producers to place their production under loan at harvest when prices are typically low and receive benefits based on the statutory $355 per ton average loan rate to help pay expenses at the time of harvest. Producers may wait until market prices move advantageously before redeeming the loan collateral and selling the commodity at a higher price. If subsequent market prices do not allow producers to repay the loan profitably, the grower may forfeit the loan collateral peanuts to the Commodity Credit Corporation (CCC) in satisfaction of the loan obligation. The producer also may repay the loan at a rate announced by USDA and market the peanuts previously placed under loan.

Under the new program, peanut producers may grow any amount of peanuts and market them for food, export, or crush. Under the prior program, producers needed a marketing quota in order to sell the peanuts in the more lucrative food market. Price support under the previous program provided a high level of price support for peanuts used in domestic food and a much lower level of price support for peanuts to be exported or crushed.

The two-tiered price support program operated as a tax on consumers, who paid a higher price for food peanuts than they would have without the program. As a result, taxpayer costs for the program were virtually nil, but high prices for peanuts restrained growth in food use. Historically, more than half of annual peanut production is used for food, with the remainder exported or crushed. The high quota support rate for food peanuts reflected this comparatively high value end use and illustrates a basic distinction between the food orientation of the US market and the oil and meal demand-driven world markets for peanuts.

The new peanut program also provides for fixed, decoupled payments of $36 per ton to producers on farms for which a peanut base has been established and for market-based counter-cyclical payments to these producers with a maximum $104 per ton annual benefit during periods of low market prices. These payments provide an additional safety net to producers when economic, or other conditions beyond their control, threaten the viability of their operations.

An additional benefit that is required by the 2002 Farm Bill to be made with respect to peanuts, but not for other commodities, is the payment by CCC of storage, handling, and other associated costs, irrespective of the level of the loan repayment rate (LRR).

While we have had few problems with the direct and counter-cyclical programs, one of the most perplexing questions that has emerged is why the peanut marketing loan program does not function like the marketing assistance loan program for other commodities. That is, a very high proportion of the annual output is placed under loan; very little use is made of loan deficiency payments (LDP's). Our conclusion is that storage and handling payments encourage heavy loan placements and that holdover industry practices from the previous era are impeding price discovery, inhibiting more efficient operation of the program.

The Current U.S. Peanut Industry—Vibrant, Stronger, and More Competitive

The changes Congress made to the peanut program with the 2002 Farm Bill have resulted in a more productive and economically efficient peanut industry. Producers, no longer constrained by the old marketing quotas, are now able to grow peanuts for any market. They are able to plant on more productive acreage. Shifts in plantings have contributed to higher yields and larger annual US peanut outturn. Peanut yields under the new program are averaging 13 percent higher than under preceding farm legislation.

Domestic food use of peanuts, the largest peanut off-take category, has averaged 15 percent higher under the 2002 Act. The reduction in the support price for food-use peanuts from $610 per ton to $355 per ton has facilitated lower peanut prices for consumers. Increased peanut food product advertising and promotion by manufacturers has spurred consumer interest as well. In March 2006, while school children enjoyed their classic American staple peanut butter-and-jelly sandwich, lunch providers' budgets benefited from the lowest March peanut butter prices in 20 years!

In this regard, the new peanut marketing loan program has been tremendously beneficial. Working closely with the peanut industry, USDA has successfully established a market-oriented marketing loan program and facilitated the many accomplishments listed above. In short, producers, consumers, manufacturers and government are all doing their part to ensure the continued growth of this great industry.

In evaluating the operation of the current program, it is important that four key factors are clearly understood:

(1) price discovery limitations impede the estimation of an accurate LRR (also called National Posted Price [NPP]);[1]

(2) producers are not receiving the full benefits Congress intended from the marketing assistance loan program;

(3) government paid storage and handling for peanuts placed under marketing assistance loans stimulate loan participation and creates rigidity in marketing; and

(4) exports remain strong.

Challenges with Peanut Price Discovery

Price discovery is important to the administration of all CCC marketing assistance loan programs because it provides the requisite information for establishing an accurate LRR. The LRR allows for repayment of loans at levels that move freely in response to the dictates of supply and demand. The new peanut marketing assistance loan program established a loan rate of $355 per ton. As with other commodities, the grower is guaranteed at least this price. If the price falls below this amount, the grower can receive the difference in the form of a marketing loan benefit or forfeit the peanuts to CCC.

Finding price information with which to determine the LRR, not customarily a problem for other commodities with marketing assistance loan provisions, is a unique problem for peanuts. For example, corn producers have a combination of mechanisms that provide price transparency in the market. Corn producers throughout the U.S. have multiple marketing options, including selling to local elevators, feed lots, and ethanol plants. Corn prices are openly reported on various market exchanges by many market price reporting services. In stark contrast, the comparatively small number of peanut producers in the U.S. has limited sales options, no market exchange, and limited market price information sources.

When Congress changed the peanut program from a marketing quota program, it established a nonrecourse marketing assistance loan program in an industry without price discovery mechanisms. Previously, peanut market prices were largely determined by the program, and the peanut industry had little need for price discovery. Now that both peanut producers and USDA need farm-level market price information, very little exists. This is attributable to both the concentrated structure of the peanut industry and industry reliance on private contracts.

Recent consolidations have resulted in a peanut industry with very few buyers. Market power is concentrated among shellers, leaving few alternatives to growers in marketing their peanuts. Industry concentration, coupled with previous marketing patterns, has facilitated widespread use of private contracting in the industry.

[1] National Posted Price (NPP) is USDA's weekly approximation of the farm-level market price for in-shell peanuts. Loan Repayment Rate (LRR) refers to the rate at which a marketing loan can be redeemed in a given week. When the market price is at or below the loan rate of $355 per ton, NPP and LRR are equal. When the market price is above the loan rate, NPP increases with the market price, while LRR remains at $355.

Private contracting, a holdover practice from the earlier program and the primary method of marketing peanuts, inhibits the availability of timely, transparently established market prices. Shellers and growers enter into individual contracts, often before planting. Private contracts provide little price information to USDA and impede the development of the sort of farmer stock cash market that would improve price discovery. If the industry could be encouraged to reduce its reliance on private contracts and instead trade on the cash market like other commodities, USDA could have access to the type of price information it needs to accurately determine the weekly NPP. However, incentives to continue the use of private contracts exist, with the most compelling incentive, storage and handling payments for peanuts under marketing loan, funded by taxpayers. Because private contracts (called option contracts) require growers to place peanuts under marketing assistance loan after harvest, they take advantage of storage and handling benefits, making the contracts more profitable than they were prior to the 2002 Farm Bill.

Available Peanut Price Surveys Provide Limited Market Information

One source of price information available to USDA for establishing the weekly NPP is the Agricultural Marketing Service (AMS) shelled peanut report. This report publishes shelled peanut prices for three types of peanuts, according to the different grades, by polling sheller representatives and peanut brokers over the telephone for prices on trades made during the previous week. However, a concentration of market power on the buying end lends itself to a more restrictive trading environment in which purchases cover peanut needs for extended durations of time, and where non-disclosure clauses written into large contracts prevent parties from sharing price information with AMS. AMS peanut price reporting and reliability is thus hindered by infrequent trades, low volume trades, and the potential for manipulation of prices through selective reporting.

USDA's experience with using only AMS prices to establish the NPP was largely negative. When USDA first began its administration of the marketing assistance loan program in 2002, it relied only on AMS prices to establish the NPP. Within four weeks of the first announced NPP, the NPP had decreased 15 percent, from a level well above the loan rate to one which resulted in the payment of $20-40 per ton in marketing assistance loan benefits. Over the course of the 2002 crop year, USDA paid $50 million in marketing assistance loan benefits, even though other supply and use factors for the crop year suggested a robust market. USDA altered its NPP source data in response to this outcome by relying less heavily on AMS prices, and marketing assistance loan outlays have since decreased.

Also, the use of a shelled price is not appropriately matched to the loan program, which is based on grower product, or in-shell peanuts. Such use would necessarily imply a minimum processing margin for shellers guaranteed by taxpayers.

Including available international peanut prices in the NPP calculation is deemed inadvisable since the reporting companies do not provide information on volumes traded, indicate whether the reported prices are quotes or actual transactions, or detail the sources

of their price information. Further, trading companies do not update prices often enough, are inconsistent with their updates and have a stake in the reported price levels. USDA contracted with independent professional economic analysts to study the peanut market and make recommendations for setting the NPP. They rejected the use of prices from international sources in setting the NPP and recommended that USDA focus on domestic prices.

The only dependable source of price information on peanuts at the farm level is reported monthly in the National Agricultural Statistics Service (NASS) *Agricultural Prices* report. The NASS report is a paper survey that captures volumes traded and prices received for farmer stock peanuts, including option prices paid to farmers. However, NASS only reports a single price that encompasses all types and does so only once a month, which may reflect a 4-8 week lag in actual transaction prices.

USDA Peanut Price Discovery Efforts

In attempting to overcome these deficiencies, we have made several attempts to engage the peanut industry in cooperative efforts to obtain more accurate and timely price information. USDA efforts to enhance price discovery began in July 2003 when USDA established its Interagency Peanut Task Force to review the price discovery process. USDA assembled staff from nine agencies in the Department. The Task Force determined that the most critical component in a successful marketing loan program is accurate and timely price information. Furthermore, the Task Force said that price discovery in the peanut sector has been complicated by a lack of transparent, consistent and market-oriented transaction data. Contributing to the lack of transparency is the small and highly consolidated structure of peanut buyers.

USDA followed up on the task force findings with a meeting of all industry segments in October 2003 to discuss challenges related to price discovery and to solicit their input in developing solutions. USDA sought to improve upon the NASS price series by increasing the frequency of the NASS survey from monthly to weekly. The peanut shelling segment of the industry stated its preference for the use of AMS and/or international prices for establishing the weekly NPP. At least one of the major peanut shellers declined to participate in a weekly survey.

In 2004, USDA contracted with an independent economic consulting firm to develop a methodology for calculating the NPP. The resulting analysis focused on the use of domestic prices to establish the weekly NPP, specifically AMS shelled prices. Based on USDA's previous experience with this method, USDA continued its use of prices from multiple sources to establish the NPP.

Subsequently, USDA undertook to determine potential marketing assistance loan outlays using the methodology recommended by the independent contractor during the period when USDA experienced the only significant level of forfeitures under the new program. Beginning in late February 2005, the third party estimation of the NPP dropped below the loan rate, and the spread between this hypothetical NPP and the actual NPP widened over

time. Marketing assistance loan outlays using the third party NPP were estimated to total $42 million from February to November 2005. Actual marketing assistance loan benefits paid during this period were $7 million. Assuming that payment of $42 million in marketing loan gains would have prevented forfeiture of 106,000 tons (4.9 percent of production) during the period, the monetary loss to USDA resulting from these forfeitures only added $6 million to USDA outlays.

In January 2005, in response to interest from the New York Board of Trade (NYBOT) regarding the feasibility of adding peanuts to its exchange, USDA hosted a meeting between representatives of the peanut industry and experts on futures markets from the Commodity Futures Trading Commission (CFTC), Chicago Board of Trade (CBOT), Economic Research Service (ERS), and NYBOT. Presenters discussed the criteria necessary for a successful futures market. The outlook for the peanut industry was mixed. Representatives of CBOT and NYBOT stressed that the level of interest and participation in a futures market during its first month would likely determine its ultimate success. However, sheller representatives expressed reluctance to commit to serious participation in a futures market in its formative stages.

USDA's most recent meeting with all segments of the peanut industry occurred in November 2005. USDA reviewed the status of the marketing assistance loan program, explained its reasons for not relying solely on AMS prices for establishing the NPP, and recommended program improvements. The key recommendations were for a weekly NASS farmer stock price survey by type and for shortening the loan period to require loan maturity no later than June 30. Major industry participants showed little interest in either proposal.

USDA convened its Peanut Interagency Task Force in January 2006 to perform an internal review of the NPP calculation. The Task Force affirmed the NASS farmer stock price as the best indicator of the market and recommended that USDA continue its existing method of establishing the NPP until better price information becomes available.

USDA continues to pursue the establishment of a weekly NASS farmer stock price survey by type. During March 2006, NASS met individually with shellers to solicit their participation in a weekly survey. USDA considers the more frequent update on farmer stock prices imperative to successful operation of the marketing loan program. The benefits of full participation in this survey include 1) more timely and accurate farmer stock price information for the industry and USDA, 2) reduced lag between NASS farmer stock price updates, and 3) differentiation of farmer stock prices by type. Access to prices by type will allow for a more precise repayment rate. It may also result in a lower repayment rate for runner peanuts, which make up 80 percent of US production. Because NASS combines prices for all types, it may at times include prices for comparatively high-valued types.

It is readily apparent that access to timely and accurate price information is essential to successfully operating the marketing loan program in the manner Congress intended. One possibility for ensuring that USDA has the information it needs to operate the

marketing loan program is for Congress to require industry participation in a price survey should the industry continue to refuse to participate voluntarily. Without this price information, the result will be unnecessarily high loan forfeitures when the NPP is set artificially high, or overpayment of marketing loan benefits when the NPP is set too low.

Peanut Option Contracts

The use of option contracts, which require peanuts to be placed under a marketing assistance loan, hampers the development of a reliable NPP. Since the new program, these contracts almost always set the sheller price based on the USDA-determined LRR[2]. Through option contracts, shellers offer producers a premium, or option payment, above the LRR in exchange for the right to redeem the grower's marketing loan (marketing assistance loans are required under the contract) at a time of their choosing and then process the peanuts. Because a large portion of all peanuts are marketed in this manner, option contracts have precluded the emergence of a cash market, resulting in little "arms length" price discovery. This, in turn, severely limits the amount of market price information available to USDA for use in establishing the NPP. This has resulted in a circular situation. Contracting precludes availability of broadly-based, representative price information with which to establish the NPP, but the sheller contract "price" depends upon that very same USDA-set price. This situation is very different from other commodities, where price information and buyers are widely available.

Option contracts base sheller prices on the NPP and provide authority to the sheller the right to redeem a grower's peanuts. Option contracts require peanut growers to take a marketing loan at harvest, when the producer receives payment for the peanuts of $355 per ton (the loan rate) plus any option payment from the sheller. When this occurs, a producer's role in peanut marketing virtually ends, because through the option contract, the producer has authorized the sheller the right to repay the marketing loan when the sheller so chooses at the prevailing NPP. When the repayment rate is less than $355, shellers simply obtain the peanuts they redeem at a lower cost. The removal of producers from the loan redemption decision eliminates the producer role in ensuring fair market value. By taking producers out of the mix, buyers may be able to obtain loan commodities at below true market value, with the difference funded by taxpayers through excessive marketing loan benefits. This may explain sheller reluctance to reveal market price information to USDA.

Peanut Storage and Handling Payments

Another major factor that negatively affects loan program operations is the provision requiring CCC to pay storage, handling, and associated costs for loan peanuts through the 2006 peanut crop year. These benefits are generally not available to the producers of any other covered commodity, although cotton producers may receive credit for storage (not handling) when the loan repayment rate falls below the loan rate. Paid storage and

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[2] Through option contracts, the per ton price received by peanut growers is the loan rate ($355) + option. However, the per ton price paid for peanuts by shellers is the loan repayment rate (a variable price less than or equal to $355) +option. For this reason, it is peanut shellers, rather than peanut growers, who are subject to changes in the LRR.

handling exacerbates problems with price discovery and precludes the NPP from fulfilling its intended role. Like marketing loan gains, option contracts shift most of the storage and handling benefit ($48 per ton on average) to peanut shellers at the expense of taxpayers. We suggest that this is an unintended result and that Congress intended the peanut marketing loan program to work similarly to programs for other commodities, with the benefits going to producers.

Storage and handling payments create a strong incentive to continue use of option contracts and place an abnormally large share of peanut production under loan. In 2005, 95 percent of production was pledged as collateral for CCC marketing assistance loans. By comparison, a normal rate of loan placement for cotton ranges from 50-80 percent, while the rate of loan placement for corn ranges from 10-15 percent.

The heavier use of the marketing assistance loan for peanuts relative to cotton may stem in part from the unique provision for peanut storage and handling charges, regardless of the level of the repayment rate. Cotton producers who are in a position to capture a marketing loan gain may incur storage payments if cotton prices rise above the loan rate. They thus have a higher risk of adverse price movements and an increased incentive to cash in on these benefits in a timely manner through redemption of loan collateral. In contrast, this incentive does not exist for peanuts, which is evident in the rate of peanut loan collateral redemptions. Because peanut shellers do not run the risk of losing storage and handling payments with an adverse price movement, shellers redeem loans as their needs prescribe. This reduces the effectiveness of the LRR to influence loan collateral redemptions and increases USDA's risk of forfeiture. Statistical analysis suggests no correlation between the levels of the weekly loan repayment rate and peanut loan collateral redemptions. This is in sharp contrast to the experience with other commodities.

In addition to impeding the operation of the marketing assistance loan program, paid storage and handling have proven expensive. Since 2002, larger peanut production and increasing shares of peanut production pledged as loan collateral have escalated USDA costs associated with peanut storage and handling. Prior to enactment of the 2002 Farm Bill, the Congressional Budget Office estimated that peanut storage and handling would cost $74 million over fiscal year (FY) 2003-2007. Actual FY 2003-2005 expenditures plus USDA projections for FY 2006-2007 suggest total outlays for peanut storage and handling of $509 million, nearly seven times the estimate.

The decision by Congress to terminate peanut storage and handling support after the 2006 crop will help the industry to adapt to the new program and function in a manner more consistent with other commodities. The industry will have a reduced incentive to negotiate option contracts and place large portions of production under loan. Price discovery mechanisms, such as a farmer stock cash market, will likely be more robust, thereby improving market information to producers and to USDA.

Producers use the loan program. Currently, nearly 100 percent of crops placed under loan lock in the minimum price of $355 per ton. The elimination of storage and handling

payments will help USDA manage the peanuts under a marketing assistance loan by encouraging loan collateral redemptions in response to market conditions, rather than program provisions.

Loan Duration

Our experience also suggests an additional adjustment that would improve effectiveness of the peanut marketing assistance loan program. Shortening the term of the marketing assistance loan to no more than six months, with maturity by June 30 each year, would mitigate market conflict between "old" and "new" crop peanuts. June 30 was the date at which old crop loans were terminated under the previous program and this encouraged the movement of peanuts from one crop into the market prior to harvest of the next crop.

Peanut Exports

Most of the criticism of USDA's administration of the peanut marketing assistance loan program focuses on the determination of the NPP. Some in the industry argue that the NPP is too high to allow the domestic industry to compete in the export market. However, we suggest that these arguments fail to recognize the fundamental changes made to the program by the 2002 Farm Bill. The program was changed from a two-tiered price support program, which distinguished between the domestic food market (with a high support price) and the crush and export markets (with a much lower support price), to a single price program. The NPP is intended as a market-clearing mechanism for all peanuts, regardless of end use. As such, the NPP reflects the combined value of all end uses, as revealed by the market price, and does not seek to direct peanuts to one market over another, as in the previous program. The NPP does not distinguish peanuts by end use or destination.

In addition, this ignores the long-term downward trend for peanut exports that began in the early 1990s. Prior to the 2002 Farm Bill, U.S. peanut exports began to decline due to increasing competition with China and Argentina. China produces 14 million metric tons (MT) of peanuts each year, while US production is 2 million MT. China has doubled its exports since the mid 1990s and improved quality. Total 2005 crop peanut exports from China are projected at 950,000 MT; U.S. 2005 crop peanut exports are projected at 234,000 MT. While a large portion of China's export increase has been to markets that previously did not import large quantities of peanuts, China has still managed to increase market share in nearly every market, including the European Union and Mexico. In both Europe and Mexico, this increased share of sales by China has come at the expense of Argentine and US peanuts.

Since 2002, U.S. peanut exports have stabilized to a consistent annual rate of around 250,000 short tons. This figure remains on par with many of the years leading up to the 2002 Farm Bill and does not indicate a loss of exports resulting from the 2002 Farm Bill or the level of the loan repayment rate.

Imports into the domestic market lend little support to the suggestion that the NPP is set too high. U.S. peanut imports have fallen 90 percent since 2001 and now comprise less than 1 percent of total use. As of March 31, 2006, imports from Argentina, our principle supplier, totaled less than 7 percent of the annual tariff rate quota that opened April 1, 2005. Put another way, 93 percent of the allowable peanut import quota remained unfilled last year. If the NPP was set too high for domestic peanuts to remain competitive, U.S. processors would likely be importing more peanuts.

USDA estimates that even a sharp reduction in the peanut LRR will capture few additional exports at a sizeable cost to US taxpayers. A reduction in the repayment rate from the 2005 season low (to date) of $330 per ton to approximately $260 per ton will likely only generate 60,000 short tons of additional exports and would add $161 million to the cost of the marketing assistance loan. This amounts to a taxpayer cost of $2,683 per additional ton of export.

Were USDA, as requested, to intentionally reduce the repayment rate to a level that would capture additional exports, it would likely present World Trade Organization (WTO) concerns. Marketing loan gains are subsidies for the purposes of the WTO Agreement on Agriculture and the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). As such, they qualify as amber box support and count toward the total U.S. support limit of $19.1 billion per year. In addition, the SCM Agreement provides that no country should cause, through the use of any such subsidy, serious prejudice to the interest of another country. When the perceived effect of a subsidy is significant price suppression, price depression, or lost sales in an individual market or in the world market, the WTO may rule as it did in the upland cotton case brought against the United States by Brazil that a subsidy creates serious prejudice.

Intentionally reducing the loan repayment rate for peanuts under USDA's marketing assistance loan program for the purpose of facilitating the export of peanuts could give rise to claims of serious prejudice under the SCM agreement. A successful challenge in the WTO on that basis would ordinarily require the U.S. to withdraw the measure or its impermissible effect. Failure to do so would then permit the complaining party to seek trade retaliation commensurate with the degree and nature of the adverse effects determined to exist.

For Consideration...

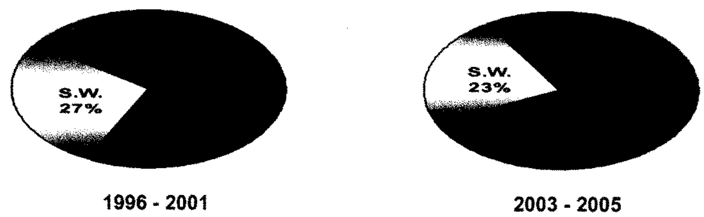
First, allow peanut storage and handling benefits to terminate with the 2006 peanut crop. This will help the peanut marketing assistance loan program adjust to more normal placement and redemption patterns. It will induce peanut loan redemptions and will likely reduce loan placements and industry dependence on option contracts. To the extent that it reduces the use of private contracts, it will improve price discovery and could foster a cash market for farmer stock peanuts, thus rendering mandatory price reporting unnecessary.

Second, establish June 30 as the date marketing assistance loans for peanuts mature each year. Under the prior peanut program, handlers cleared loan peanuts from warehouses by June 30 to ensure that storage facilities were available before the next crop's harvest began. The threat of peanuts perishing will be less of a problem under such an arrangement. Earlier maturity also will require redemption or forfeiture of peanut loan collateral at an earlier date, and thus reduces conflict that arises when "old" and "new" crops are marketed simultaneously.

And third, collect a weekly NASS farmer stock peanut price to provide USDA with dependable, timely, and accurate price information for estimating the market price and setting the LRR. If this option fails, we recommend exploring an incentive-based or mandatory price reporting system.

Chart 1

Peanut Production Changes with the 2002 Farm Bill



Regional share of U.S. peanut production

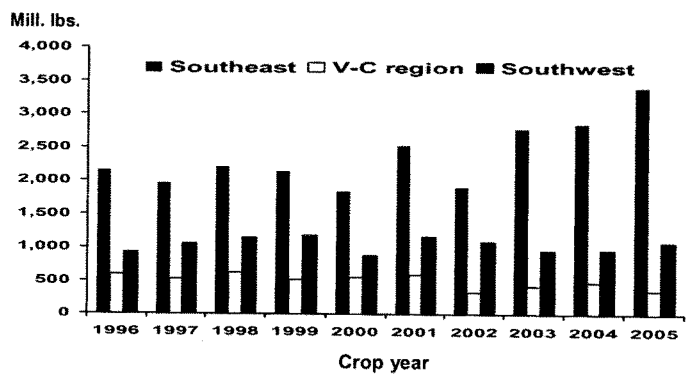
- ❑ Southeast's share rises to 68% on gains in Georgia.
- ❑ Southwest production declines led by Oklahoma
- ❑ VA-NC's share decreases from 15% to 9%.

PEANUT PRODUCTION SHIFTS UNDER 2002 FARM BILL

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
PRODUCTION (1,000 lbs)										
ALABAMA	440,805	372,400	432,415	448,050	271,160	532,325	379,800	508,750	557,200	613,250
FLORIDA	236,160	228,060	233,100	290,380	213,710	250,100	197,800	345,000	364,000	410,400
GEORGIA	1,433,770	1,333,830	1,511,655	1,400,800	1,328,400	1,711,620	1,313,000	1,863,000	1,817,800	2,152,500
SOUTH CAROLINA	32,550	30,450	28,175	26,300	29,500	30,000	19,140	57,800	112,200	168,000
MISSISSIPPI										44,800
SOUTHEAST	**2,152,285**	**1,964,830**	**2,205,345**	**2,134,530**	**1,842,790**	**2,524,045**	**1,909,740**	**2,774,550**	**2,851,200**	**3,388,950**
NORTH CAROLINA	367,500	320,640	397,155	298,840	338,250	356,475	210,000	320,000	367,500	288,000
VIRGINIA	219,260	191,250	221,250	218,120	210,375	234,750	119,700	95,700	104,000	66,000
VA.-CAROLINA	**586,760**	**520,890**	**618,405**	**516,960**	**548,625**	**591,225**	**329,700**	**415,700**	**471,500**	**354,000**
TEXAS	689,000	822,150	917,900	926,800	698,500	895,900	868,000	810,000	803,700	910,000
OKLAHOMA	195,210	184,800	159,750	189,600	120,600	197,890	159,600	98,000	102,300	105,600
NEW MEXICO	37,950	46,710	62,040	61,600	54,990	67,044	54,000	45,900	59,500	62,700
SOUTHWEST	922,160	1,053,660	1,139,690	1,178,000	874,090	1,160,834	1,081,600	953,900	965,500	1,078,300
TOTAL U.S.	**3,661,205**	**3,539,380**	**3,963,440**	**3,829,490**	**3,265,505**	**4,276,704**	**3,321,040**	**4,144,150**	**4,288,200**	**4,821,260**

Chart 2

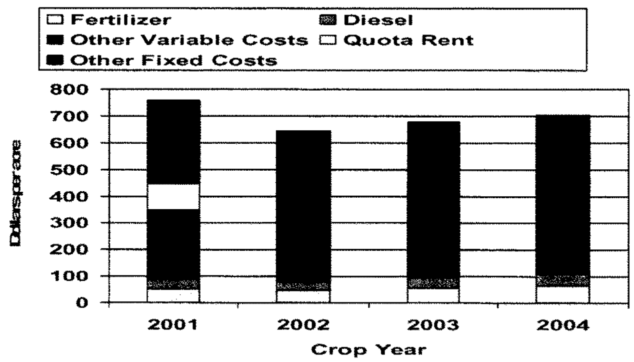
Peanut Production Concentrates in Southeast



❑ Southeast's increase more than offsets declines in V-C and Southwest

Chart 3

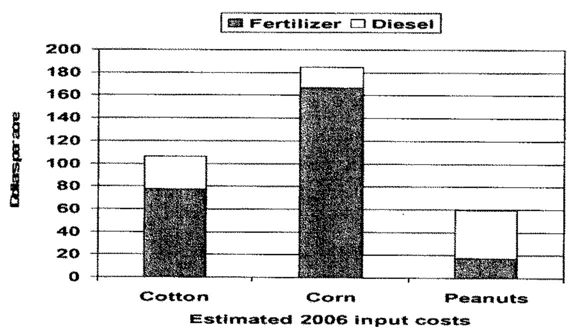
Producers Benefit from Lower Peanut Production Costs Under the 2002 Farm Bill



- Until the 2002 crop year, SE peanut growers paid around $98 per acre in quota rent.
- Higher energy prices in recent years have increased diesel and fertilizer costs.

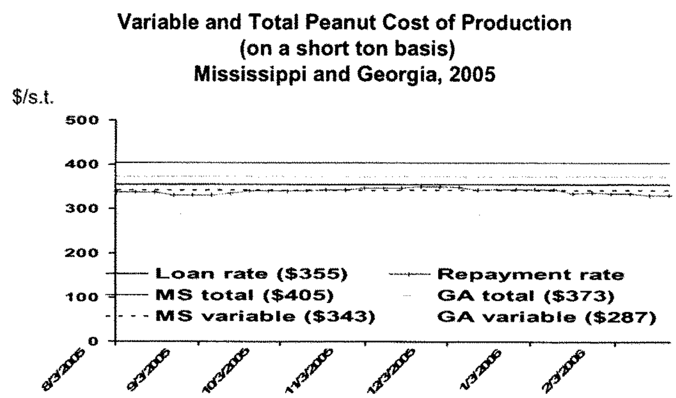
Chart 4

Fertilizer costs are lower for peanuts than for alternative crops in South Georgia



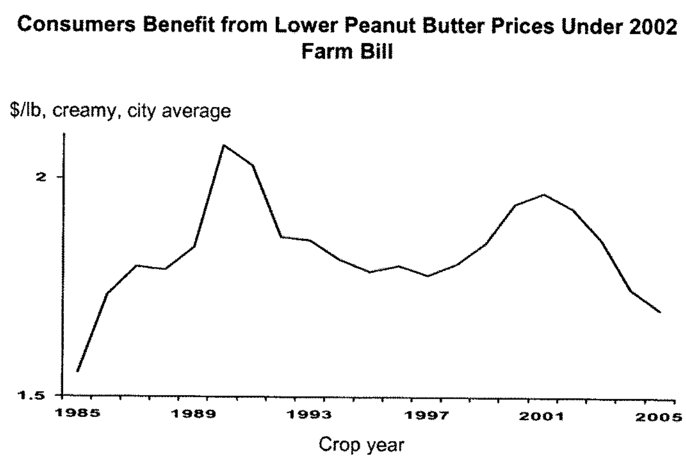
- As fuel prices rise, so does the cost of producing fertilizer.
- A relatively low fertilizer input makes growing peanuts more attractive as fuel and fertilizer prices increase.

Chart 5



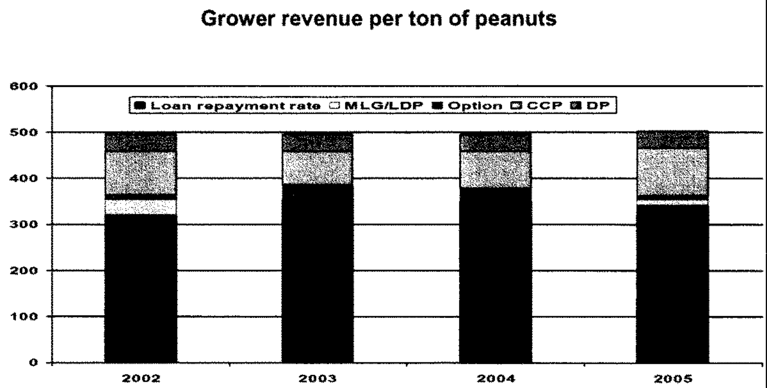
- Total costs exceed repayment rate in MS and GA.
- Repayment rate falls below variable costs in MS.
- MLG/LDP's in effect for the entire season.

Chart 6



- Reduced input costs prompt manufacturers to reduce peanut butter prices to near 20-year low.
- Dec. 2005 peanut butter price ($1.37/lb.), lowest in 227 months.

Chart 7



- Total revenue in years 2002-2004 is $495 per short ton.
- Grower revenue reaches $502 per short ton in 2005 through a reduced loan repayment rate and a maximum counter-cyclical payment.

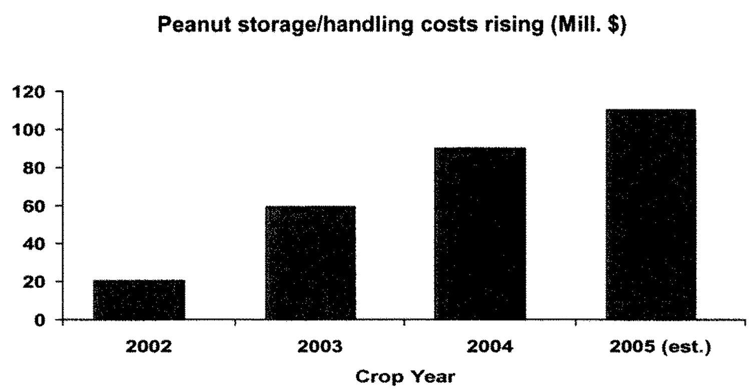
Chart 8

Peanut program costs by fiscal year (in million dollars)

	2003	2004	2005	2006*	2007*
Direct payments	97.3	70.7	69.1	61.9	56.3
Counter-cyclical	161.1	98.1	191.1	165.4	180.6
MLG (includes certificate gains)	23.7	0.0	6.5	27.0	0.0
LDP	26.0	0.0	0.0	1.0	0.0
Storage/handling	87.1	90.3	99.6	124.3	107.7
Total (not including quota compensation)	**395.2**	**259.1**	**366.3**	**373.6**	**344.6**
Quota compensation	1221.1	10.3	5.6	12.3	0.0

*Estimate

Chart 9



- As both production and share of peanuts placed under loan expanded, USDA storage and handling increased.
- In 2002, 40 percent of peanut production was placed under loan; in 2005, 95 percent of peanut production was placed under loan.

Chart 10

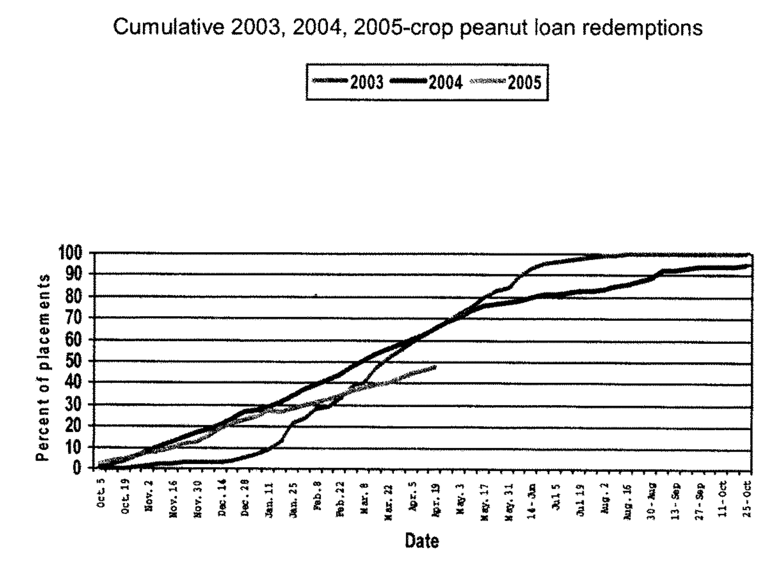
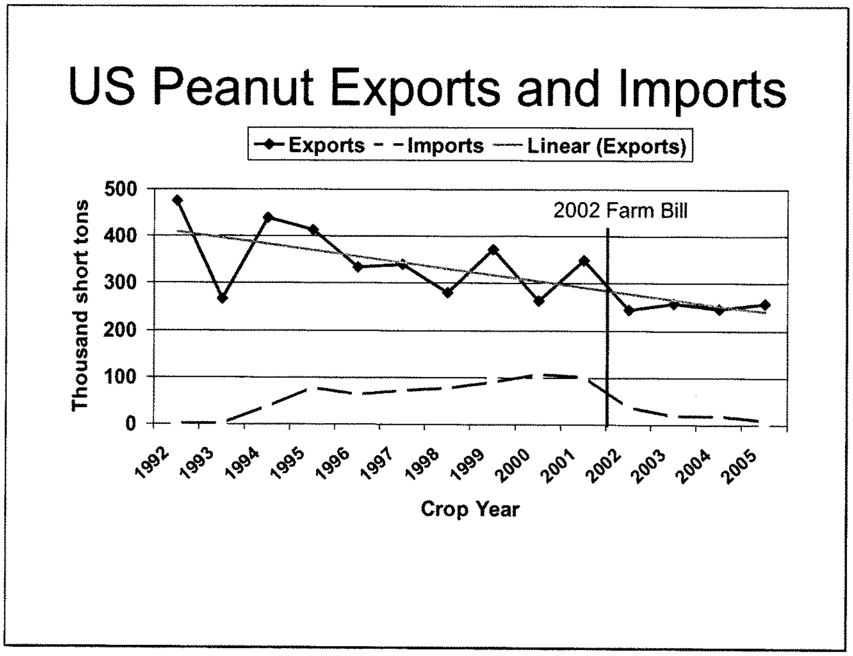


Chart 11



US Peanut Exports and Imports
Exports
Imports
Linear (Exports)
2002 Farm Bill
Thousand short tons
500
400
300
200
100
0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Crop Year

Statement

Of

Dr. Stanley M. Fletcher
Professor, University of Georgia
Director, National Center for Peanut Competitiveness

Before the

U.S. Senate Committee on Agriculture, Nutrition, and Forestry

May 2, 2006

Good morning Chairman Chambliss and Members of the Committee, my name is Stanley Fletcher. I am a professor at The University of Georgia and the Director of the National Center for Peanut Competitiveness. I am honored to be invited to present testimony on the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002.

First, I want to commend you, Chairman Chambliss, and Members of the Committee for your willingness to work with your colleagues and a group of peanut leaders to develop a new and more globally market oriented competitive peanut program. However, I am not here today to say that the implementation has been flawless.

The new peanut program can be viewed as being successful on the domestic front. In fact, one can observe the market forces at work in the peanut sector. There has been a significant change in cropping patterns. Some areas have shifted away from peanut production while other areas have expanded. In addition, we have new areas that never have produced peanuts under the old peanut program that are producing today. Peanut producers are responding to market signals.

During the 1990s, domestic peanut consumption was basically viewed as being relatively stagnant. However, the new peanut program, which included the lowering of the peanut price, has allowed the domestic peanut industry to be competitive in the market place. There have been more new peanut products introduced. Since 2002, U.S. total peanut domestic consumption has increased by 16.5% (based on USDA Peanut Stocks and Processing reports).

With the passage of NAFTA and the Uruguay Round of GATT (now WTO) trade agreements in the 1990s, peanut imports were increasing significantly, reaching a high of

71,782 MT (approximately 100,000 tons FSP) in 2001. The new peanut program allowed the domestic industry to compete with the imports. The 2005 peanut import level was just 12,196 MT which is approximately an 83% drop in imports. This clearly indicates that the U.S. peanut industry can compete and be successful.

While the U.S. peanut industry can be successful in the domestic market, this does not hold true for the international market. The U.S. peanut industry used to have over 30% of the world peanut trade under the old peanut program during normal crop years. In 2005, the industry had approximately 13% of the world trade. If one looks at the trend since 1992 (a normal crop year), the U.S. peanut export volume has dropped 54% from 1992 to 2005. The problem does not lie within the peanut program itself. Rather, the problem exists due to the method USDA is using to implement the language in the law.

U.S. peanut exports are highly dependent on the National Posted Price set by USDA. Peanut is not a homogenous commodity and it is a semi-perishable commodity. You have runner peanuts, Virginia peanuts, Spanish peanuts and Valencia peanuts. While these types of peanuts can be substituted to a minor degree, they each have a particular market. For the 2005 crop year, only two percent of the crop was sold commercially at inspection time. In other words, 98% of the crop moved through the loan program. The majority of the peanut crop moving through the loan has an option contract between the farmer and the sheller. If the sheller exercises the option, the price paid to the farmer is the loan repayment rate, basis grade, which is the lesser of the national posted price and the loan rate (basis grade). Thus, USDA is in reality setting the market price for farmers.

USDA commissioned a third-party study for recommendations on calculating the National Posted Price. I was not involved in this study. However, this study

recommended using the shelled peanut prices between shellers and processors as the key factor in calculating the National Posted Price. The shelled peanut prices are the only prices determined from a competitive market environment. In contrast, the USDA-NASS peanut prices reported have serious flaws. The prices they collect do not necessarily reflect the price that the farmer actually receives for their peanut crop. Furthermore, there is no separation of prices by peanut type which is critical. Thus, shelled peanut prices should be the major factor in the calculation as recommended by the USDA third-party study. This would be a step in the right direction in recapturing our export markets.

How is the peanut program working in terms of a safety net for peanut farmers? To address this issue, the National Center for Peanut Competitiveness has eleven peanut representative farms for the Southeast and is working with the Agricultural and Food Policy Center (AFPC) at Texas A&M utilizing their FLIPSIM model. In the fall of 2004, we analyzed the overall economic viability of the 11 representative farms over the period of 2005-2010. Seven representative farms were in the good classification of overall economic viability, three farms were in the moderate classification, and one farm was in the poor classification. This past week the Peanut Center re-examined the 11 farms using the January 2006 baseline and eliminating storage and handling for the 2007-2010 crop years. Only one representative farm was in the good classification of overall economic viability, one farm was in the moderate classification and nine farms were in the poor classification. The primary factors were elimination of storage and handling fees, energy costs and interest rates. This does not paint a good picture for the long term health of Southern agriculture and peanut farming.

Thank you.

STATEMENT OF EVANS J. PLOWDEN, JR.

GENERAL COUNSEL OF THE

AMERICAN PEANUT SHELLERS ASSOCIATION, INC.

BEFORE THE SENATE COMMITTEE ON AGRICULTURE,

NUTRITION AND FORESTRY

WASHINGTON, D.C.

MAY 2, 2006

GIVEN ON BEHALF OF:

AMERICAN PEANUT SHELLERS ASSOCIATION, INC.

Good morning Mr. Chairman, Members of the Committee. My name is Evans Plowden. I'm general counsel for American Peanut Shellers Association, a trade association of most of the peanut shellers in the United States. Our members handle approximately 85% of the peanuts grown in the U.S.

Not only do I want to thank you for the opportunity to present our views today, I want to thank this committee for the role it played in the 2002 Farm Bill. Mr. Chairman, as you know from your service in the House at the time, the federal peanut program prior to the 2002 Farm Bill was a supply management system with high support prices for quota peanuts used in the United States and very low support prices for peanuts to be exported. Congress changed that program to a marketing assistance loan program similar to those for other commodities. That change gave our entire industry; growers, shellers, buying points and manufacturers, an opportunity to grow. We all appreciate that because, under the old program, we were stagnant at best, and dying at worst.

The intention of Congress in 2002 was great. We all thought the changes you made were the opportunity for us to become a vibrant, growing industry. In many respects, that is exactly what happened. However, I would be remiss in coming before you today without pointing out a major problem that has developed with the administration of the new program. I refer to the national posted price for peanuts set weekly by the Secretary of Agriculture. It is simply too high for us to compete as well as we should both here at home and internationally. Our foreign markets are wide open to peanuts from all origins. Therefore, we have to compete with all origins in all aspects of the market, including price. I have no doubt that this committee felt, as did we, that it had addressed the competitive issue in the new farm program by directing the Secretary to set the national posted price at a rate that would "allow peanuts produced in the United States to be marketed freely and

competitively, both domestically and internationally". That language is clear. However, the execution by the Secretary simply has not done what the law seems to require.

For the first few years of this new program we had an empty pipeline and increasing domestic demand so that a vibrant export market was not critical. Increasing domestic demand, and the need to fill the peanut pipeline, essentially masked the problem with the national posted price. Unfortunately, that is no longer the case. The pipeline is full, in fact, it is two times normal, the increase in demand has leveled, plantings have increased, and, we, as an industry, need to sell more peanuts here and overseas. The national posted price is too high for us to do that.

Interestingly, Ambassador Portman, Ambassador Crowder, Under Secretary Penn and Secretary Johanns have been working tirelessly in WTO negotiations to increase the market access for American agricultural products. In the international peanut trade, we have few, if any, foreign barriers to our exports into significant foreign markets. Our market access barrier is our own government. Europe, Canada, Japan and Mexico all allow free market access to our peanuts. However, a national posted price in this country makes our product uncompetitive with peanuts from other origins. So we don't need market access under WTO. We need a posted price that will allow us to take advantage of market access that already exists.

In the last couple of months the market for peanuts to peanut product manufacturers has dramatically declined. Yet the national posted price has actually significantly increased. Therefore, we have a market in which purchasers are paying less and less and in which U.S. suppliers have to ask more and more. It doesn't take an economics degree to determine the consequences of such a situation.

I do not attribute anything other than good motives to those responsible for setting the national posted price. However, we submit that what they are doing is not working, is not reflective of the market, and certainly, is not being set at a price that allows peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

Statement Before the

Committee on Agriculture, Nutrition & Forestry

United States Senate

Washington, D.C.

Hearing to

"REVIEW THE IMPLEMENTATION OF THE PEANUT PROGRAM"

May 2, 2006

Presented By:

Gary Rasor
American Peanut Product Manufacturers, Inc.
Rittman, Ohio

Mr. Chairman and Members of the Committee:

I am Gary Rasor and I am here this morning on behalf of the American Peanut Product Manufacturers, Inc. (APPMI) and The J.M. Smucker Company. APPMI is a national trade association whose member companies manufacture a majority of the peanut butter, candy and snack peanuts consumed in the United States.

We have always preferred to buy U.S.-grown peanuts and we are appreciative of the opportunity to buy U.S. peanuts without limitation since Congress approved the new peanut program contained in the 2002 Farm Bill. The marketing loan peanut program has worked extremely well, except for the U.S. Department of Agriculture's administration of the repayment rate.

New Peanut Program Has Made the Industry More Competitive

We strongly support the new marketing loan program for peanuts, which is designed to make the U.S. peanut industry more competitive. We believe that this new program has served the entire peanut industry, by making each segment of the U.S. peanut industry more efficient. The program has allowed peanut product manufacturers to expand advertising and promotion of peanut products, as well as creating an incentive to develop new peanut products. In some cases, there have been price reductions in products containing peanuts.

As manufacturers, we are happy to be part of program that has led to growth in the peanut sector and we are very supportive of the growers in their efforts to make this program profitable for farmers. Since before the 2002 Farm Bill, we have worked with the growers and shellers alike, with the idea of being part of a unified industry. Even though we may not have a formal alliance, we believe the industry is unified in its goals.

New Peanut Program Translates to Increased Consumption & Production

The new market-oriented program, which lowered the peanut loan rate from $610 per ton (in the 1996 farm bill) to $355 per ton, has led to increased peanut consumption and production in the United States. According to USDA's Peanut Stocks and Processing Report, total peanut usage has increased by almost 32% since implementation of the new program in 2002. In the four-year period after the 2001-2002 crop year, peanut butter usage is up 35.6%, snack peanut usage is up 35.1%, and peanut candy usage is up 20.3% as a result of this competitive program.

Increased peanut product consumption is good news for the peanut industry. We believe that peanut usage is up at least in part due to additional advertising of peanut products, the introduction of a number of new products using peanuts, and a more favorable impression of peanuts among consumers. Industry research and promotion have touted the nutritional benefits of peanuts and today peanut butter and all peanut products are correctly perceived as healthful and carry a health halo.

Manufacturers Eye New Peanut Products

If you look at some of the innovative ideas that manufacturers have for new peanut products and with a new federal peanut program that will help make U.S. peanut producers competitive with any other peanut producers in the world – this is an exciting time to be in the peanut business.

Speaking for The Smucker Company, we are excited about the growth we have experienced in the peanut butter segment and especially our JIF® brand. We have invested heavily in new peanut products, including Smucker's Uncrustables Sandwiches® and JIF To Go®, which is a portable snack-size container of JIF®. We have had a great response to our Uncrustables®, which is a thaw and serve, fresh-frozen peanut butter and jelly sandwich with no crust. We have invested in the peanut sector by building an $70 million plant in Scottsville, Kentucky and by dramatically increasing our television and print advertising budget.

In fact, the J.M. Smucker Company has doubled its advertising spending in the peanut butter category since approval of the 2002 farm bill. This is reflected in the industry's total spending in this category, which has almost doubled from $19 million in 2001 to $34 million in 2005.

Other APPMI member companies have also introduced successful new peanut products. For example, The Hershey Company has come out with a Really Nuts®, which is a five-ounce tube of peanuts, and other snack nut mixes that include peanuts. It also has introduced several new peanut candy products, including REESE'S White Chocolate Peanut Butter Cups®, Peanut Butter Cups with Caramel®, Kisses Filled with Peanut Butter®, and a number of limited edition peanut-containing products.

Masterfoods USA has a new energy bar called Snickers Marathon® with 11 different flavors as well as its Snickers Cruncher®, Kudos Peanut Butter® and M&M Mega Peanut Chocolate Candies®. Masterfoods USA has also run the "most nuts ever" promotion of its Snickers® bar. Tom's Snacks has a number of new peanut-containing products, including an energy bar along with a number of new bars in a line that it manufactures for major companies.

Need for Transparent Process in Setting the Repayment Rate

The transition to this new program has gone smoother than any of us had anticipated. However, even with our strong support of the program, we want to use this hearing opportunity to discuss one concern that could improve the operation of the program. We believe that this Committee should take a look at how USDA administers the repayment rate for peanuts.

We can ill afford to continue to cause our peanut growers to lose the export market merely because the Department is unable or unwilling to develop a formula to identify

the weekly world market price for peanuts as it does for cotton, rice and other commodities.

The 2002 Farm Bill requires that USDA "shall permit producers to repay a marketing assistance loan for peanuts" at a rate that reflects four factors (7 U.S.C. 7957(d)(1)(B)) as follows:

> "(i) minimize potential loan forfeitures;
> (ii) minimize the accumulation of stocks of peanuts by the Federal Government;
> (iii) minimize the cost incurred by the Federal Government in storing peanuts; and
> (iv) allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally."

It appears that USDA is not properly implementing the law, since peanut loan forfeitures have increased rather than minimizing forfeitures, since it has accumulated huge stocks rather than minimizing stocks, since these actions have led to increased peanut storage costs, and since its administration has caused a severe drop in U.S. peanut exports. USDA has only complied with one-half of the fourth factor by allowing U.S. peanuts to be marketing freely in the domestic market. Unfortunately, USDA has yet to establish the repayment rate at a level to allow peanuts to be marketed "competitively … internationally". The Department has consistently set the national posted price for peanuts at a rate that prices U.S. peanuts out of world markets.

It appears that USDA is ignoring the world market with the adverse consequence of keeping U.S. peanuts from being competitive in the international marketplace. Since peanuts are not moving into export markets as much as they are capable, the United States is undermining its stature as one of the leading exporters of peanuts. USDA will cause irreparable damage to the U.S. export market for peanuts if it continues to ignore the capability of other peanut-exporting countries to fill the void created by non-competitively priced U.S. peanuts.

The peanut program contained in the 2002 Farm Bill sets forth clear criteria for administering the repayment rate, USDA has chosen to use a "black box" approach to establishing the repayment rate that does not appear to be recognize each of the key factors provided in the peanut statute. USDA's disregard for the law and less than transparent approach has caused much frustration and confusion among all segments of the industry.

We believe that USDA's determination of the weekly national posted price for peanuts should be a more transparent process, so that we have the ability to compute market fundamentals that could be used by the peanut industry to develop better forecasting models. Greater transparency in the method of establishing the national posted price would allow the industry to improve decision-making for planning purposes. Simply put, we all need an approach that is easily understood and of use to the peanut industry.

We are willing to work with this Committee, USDA, and the rest of the peanut industry to develop a solution to what has become a three-year concern about the repayment rate.

Peanut Handling & Storage Costs

We also are concerned about and strongly support extension of the payment of peanut handling and storage costs. Government payment of these costs expires at the beginning of the 2007 peanut crop year, effective August 1, 2007.

Peanuts are a semi-perishable crop requiring adequate storage to maintain their viability as an edible commodity. To protect the producers and allow orderly marketing, storage and handling are necessary. The peanut handling and storage feature has been an important part of the loan program and should be restored for the 2007 crop year and included in the peanut provisions of the next farm bill.

Conclusion

In closing, all segments of the peanut industry – growers, shellers, manufacturers and allied partners – are unified in our support of each other and the current peanut program. We hope you will consider the minor modification that we have suggested as we all speak with one voice. We recognize that a competitive program is critical to a viable peanut sector.

Thank you for allowing us the opportunity to comment on the implementation of the peanut program.

DOCUMENTS SUBMITTED FOR THE RECORD

MAY 2, 2006

National PEANUT Buying Points Association

115 West 2nd Street
P.O. Box 314
Tifton, Georgia 31793

Phone 229/386-1716
FAX 229/386-8757

May 5, 2006

The Honorable Saxby Chambliss, Chairman
Senate Agriculture, Nutrition and Forestry Committee
Room SR-328A, Russell Senate Office Building
Washington, DC 20510

RE: Full Committee Hearing
Review the implementation of the Peanut Program – May 2, 2006

RESPONSE: By National Peanut Buying Points Association

After hearing and reading carefully the comments by Floyd Gaibler, Deputy Under Secretary of Farm and Foreign Agricultural Services, one would quickly determine that the failures of the new Market Loan Assistance Program for peanuts are caused by two vital program areas, the handling and storage fees and the option contracts paid to farmers.

This is not true and as a representative of 416 buying points in America, please consider our response in your evaluation of the Peanut Program.

Why did Congress implement the payment of the storage, handling and inspection ($48 per ton average)? The reason was that in switching from the quota system to the Market Assistance Program, the farmer's guaranteed price was being reduced from $610 per ton to $355 per ton...a 41% drop in one year.

That guarantee would stay the same for 5 years with costs escalating an average of 5-7% annually. Congress mandated 100% inspection by FSIS and the drastic reduction had Congressional leaders realize that a $355 per ton loan rate coupled with a required $48-$55 per ton storage, handling and inspection reduced the farmer real price to $300 per ton and farmers just could not support the peanut program.

Mr. Gaibler claims in his testimony that the payment of the storage and handling for the farmer impedes the operation of the marketing assistance loan.

1. **LOAN WOULD STILL BE USED!**

Farmers, buying points and shellers place peanuts in the loan, because the peanuts all arrive in about 8 weeks and the **loan finances the purchase of the peanuts until the peanuts are needed in the marketplace.** Even if the inspection, handling and storage were NOT paid, the farmer would still use the loan...to **wait for a better price or until the contract delivery date**. That's the real purpose of a MARKET LOAN ASSISTANCE...use the loan and pay it back when the peanuts are marketed.

2. **BENEFIT GOES TO PRODUCERS**

Mr. Gaibler says "storage and handling benefit to peanut shellers at the expense of taxpayers."

The 'storage and handling' fees trickle down to each buying point offsetting to fees that farmers would have to pay. The farmer does NOT pay $30 per ton for handling when he delivers peanuts in my trailer, weighs on my scales and uses my buying point facilities and equipment. This is paid by the program so the farmer receives a clear $355 per ton.

The farmer does NOT pay inspection, $5.25 per ton and storage of $2.71 per ton per month is paid so he is not forced to market his peanuts ($16 per ton) as accumulating storage fees could cause the farmer to sell at a lower price under pressure.

The sheller received the FEES from the government, because the sheller is paying the buying point $40 per ton commission to cover the farmer's cost and the peanuts are stored as loan collateral in the sheller's warehouse. CCC requires that the Warehouse Loan Receipt holder is responsible for the peanuts.

THESE BENEFITS DO GO TO THE PRODUCER or he would have to pay HANDLING ($30 per ton), INSPECTION ($5.25 per ton) and STORAGE ($16 per ton average).

3. MARKET PRICES NOT INFLUENCED BY HANDLING AND STORAGE

Mr. Gaibler says paying storage and handling exacerbates problems with price discovery and precludes the National Posted Price from fulfilling its intended role.

We believe this statement to be FALSE. The Market Loan Assistance program is utilized to finance the crop until needed by the market. Borrowing money at 7+ percent to pay for purchase of peanuts is not necessary if the Market Loan charges a lower interest rate.

The handling, inspection and storage are costs the farmer would incur if the Congress did not fund these expenses. They really never enter into contract negotiations between the farmer and the sheller and therefore should not cause any problem with price discovery.

If Congress does not fund these expenses for the farmer, YES...they become a marketing factor and possible a contract factor. If a farmer has storage costs piling up, he is likely to take a lower price so storage costs will not continue to eat up any profit remaining in the loan peanut.

4. PAYING HANDLING AND STORAGE CAUSES ECONOMIC DEVELOPMENT

Mr. Gaibler recommends "allowing peanut storage and handling benefits to terminate with the 2006 crop. This will help the loan adjust to more normal placement and redemption patterns. It will induce redemptions and likely reduce loan placements and dependence on option contracts."

We believe the $74 million investment in "handling and storage" was the rural economic development incentive that saved community peanut buying points. Peanut buying points have updated equipment, kept the small rural communities viable, expanded services to farmers and have survived when many rural areas are closing. These funds, although paid to the sheller, have tricked down to rural communities. Remember, a farmer cannot grow peanuts without a local buying point to haul, weigh, clean, dry, store, pay and complete paper work. This season, over 416 buying points from New Mexico to Virginia has inspected every peanut grown in America.

Congress must realize that the major peanut production sections of America are the poorest sections of rural America and providing jobs is key to their survival and less government payouts.

The "handling and storage' fees payment has helped to **create expansions into new growing regions and created new shelling plants owned by American peanut farmers.** In Donalsonville, Georgia, the American Peanut Growers Group took advantage of the 'handling and storage' fees being paid for their growers by allowing 85 farmers to cooperatively invest to shell peanuts direct from the farm. This economic development, which created 50 full-time jobs and 6 new buying points, would not have been possible without the changes in the Farm Bill and the payback is still dependent upon the handling and storage fees being paid by CCC.

In Southwest Alabama and Southern Mississippi, a region that did not previously grow peanuts, expanded because the "in and storage" fees were paid for the farmer. If these charges had fell on the backs of farmers, then the acreage would not have been planted due to the tighter potential market a farmer could expect per ton. Over $7 million in infrastructure into two buying points have been invested and without this support, this venture would have never been funded.

In Cameron, South Carolina, a major expansion of peanut acreage has occurred. Buying points are essential components and to service these farmers, the buying points must receive, grade and deliver the peanuts ready for warehouse storage. Because of the handling fees being paid for the farmer, we have made substantial investments in handling operations along with the farmers making major investments in planting and harvesting equipment.

In Tifton, Georgia, over $18 million has been invested in a new dome storage peanut shelling plant providing over 60 jobs and the key to survival for the 56 farmers investing in the shelling plant is the 'handling and storage' fees paid for the farmer through the Market Loan Assistance Program. It is an economic development tool that caused these farmers to now own a portion of the gigantic peanut industry.

In the Southeast alone, over 200,000 tons of peanuts will now be owned by farmers in coops developed because the Congress had the foresight to allow the farmer to have a true $355 per ton minimum price coupled with paying the farmer's handling, inspection and storage. It should continue as Congress keeps prices low for American grown peanuts so American farmers can compete at home and abroad.

5) **OPTION CONTRACTS HELPS THE FARMER**

> Mr. Gaibler said, "Option Contracts severely limit the amount of market price information available to USDA for use in establishing the National Posted Price." "Storage and Handling payments create a strong incentive to continue the use of option contracts and place an abnormally large share of production into loan."

Again, we think that Mr. Gaibler's reasoning is not accurate. The LOAN is used because USDA will finance the purchase of the peanuts until needed by the market.

The OPTION CONTRACT gives the sheller the opportunity to redeem and buy a peanut when the market demands and not have to relocate and renegotiate with the farmer. Farmers are looking for the best price and negotiates with the sheller to make more than the loan, which is usually the bottom price. The farmer would like to deal on a daily cash basis, however this is **reflective of the inability of the farmer to understand how the NATIONAL POSTED PRICE is set.** The setting of the National Posted Price is not transparent, as promised by USDA. That's the reason there is no correlation between the levels of the weekly loan repayment and peanut loan redemptions. If the farmer and his buying point can't understand the NPP, the Option Contract usually is the safest bet.

<u>SUMMARY:</u> The peanut industry and Congress should be concerned about the 'intent of the law for peanuts'. From these items, we believe that the reasoning by USDA is often flawed and many of these recommendations are not the intent of Congress and many times are not reflective of the true peanut industry and how peanuts are marketed.

The "handling and storage" fees have been the glue that has held the Market Loan Assistance Program together. A price reduction of 41% with no adjustment for 5 years makes 'handling and storage' more important to the grower. The payment of 'storage and handling' does not violate the WTO rules and allows the American peanut farmer the opportunity to survive. Remember, storage and handling fees affect the 'real grower' and this active grower may not be privileged to have a direct payment and counter cyclical payments.

If 'storage and handling' is discontinued, the farmer must pay $48-$50 per ton to participate in the program. As USDA counts these fees as increases in prices, that means an equal drop in Counter Cyclical payments. If Congress takes out $74 million for storage and handling and another $74 million in Counter Cyclical...that's almost $150 million, about half of the peanut program benefits would be eliminated. Down on the farm, with that kind of cut, we just can't survive and the peanut program would be ineffective. The safety net for our segment of the Farm Bill and American Agriculture would be gone.

Please add this testimony to the comments made at the Senate Hearing as we distribute the information to industry leaders.

Sincerely yours,

Jerry King, President
K&N Peanut Company

Robin Singletary, Legislative Comm.
Hopeful Peanut Company

Larry Cunningham, President Elect
R. L. Cunningham & Sons

J. Tyron Spearman,
Executive Director

Biographies of Field Hearing Witnesses

Charles Connor: Deputy Secretary of Agriculture (USDA)
Charles F. Conner was sworn in as Deputy Secretary of Agriculture on May 2, 2005, by Agriculture Secretary Mike Johanns.

Prior to his tenure at the U.S. Department of Agriculture, Mr. Conner served on the National Economic Council beginning in November 2001 as a Special Assistant to the President for Agricultural Trade and Food Assistance, focusing primarily on Farm Bill issues.

From 1997 to 2001, Mr. Conner was President of the Corn Refiners Association, Inc., a national trade association representing the corn refining industry. Prior to his tenure with the Corn Refiners Association, Conner held several staff positions with the Senate Committee on Agriculture, Nutrition, and Forestry. Mr. Conner received a Bachelor of Science degree in Agricultural Economics from Purdue University in 1980. He is married and has four children.

Alex Azar II: Deputy Secretary of Health and Human Services (HHS)
As Deputy Secretary of Health and Human Services, Alex M. Azar is the chief operating officer of the largest civilian department in the federal government. He also leads a number of initiatives at the Department, including the fight against human trafficking, implementing the President's Management Agenda, combating bio-terrorism, public health emergency preparedness, and the development and approval of all HHS regulations. He has helped lead key activities including the response to Hurricane Katrina and planning for a potential influenza pandemic. He represents Secretary Leavitt on the boards of the American Red Cross and the John F. Kennedy Center for the Performing Arts.

Azar was nominated by President Bush in April of 2005 and immediately began serving as Acting Deputy Secretary. He was unanimously confirmed by the Senate as Deputy Secretary on July 22, 2005. Prior to his confirmation, Azar served as General Counsel of HHS. Azar has also served as a partner with the Washington law firm of Wiley, Rein & Fielding, an Associate Independent Counsel during the first two years of the Whitewater investigation under Judge Kenneth Starr, and as an associate at Kirkland & Ellis in Washington, D.C., where he was involved in litigation and appellate matters. Azar is a graduate of Dartmouth College and Yale Law School.

Dennis Wolff: Secretary of PA Department of Agriculture
Dennis Wolff of Millville, Columbia County, Pennsylvania, was appointed Secretary of Agriculture by Governor Edward G. Rendell and confirmed on May 5, 2003. Prior to his service as Pennsylvania's Secretary of Agriculture, Wolff, a dairy farmer, owns Pen-Col Farms, a 600-acre, 400-head dairy cattle operation specializing in purebred Holstein genetics. He currently serves as a member of the Agriculture Technical Committee of the World Trade Organization, Pennsylvania Dairy Stakeholders, and Penn State University Board of Trustees.

Wolff was recognized as a Master Farmer in 1994 for his outstanding management skills, land stewardship and role in the agricultural community. Wolff is the President of the Nicholas Wolff Foundation, Inc. and Camp Victory, a non-profit summer camp for handicapped and chronically ill children.

Dean Robert Steele: PSU College of Agricultural Sciences
Robert D. Steele was named Dean of Penn State's College of Agricultural Sciences July 1, 1997. As Dean, he is responsible for the day-to-day operation of the college, which serves nearly 3,000 students and employs more than 2,200 faculty and staff in support of the land-grant missions of teaching, research, and cooperative extension. He administers an annual budget of more than $140 million and oversees 12 academic departments.

Steele came to Penn State from the University of Wisconsin-Madison, where he was associate dean for research in the College of Agricultural and Life Sciences and executive director of the Wisconsin Agricultural Experiment Station. Before joining the University of Wisconsin-Madison 1982 as an assistant professor, Steele was assistant professor of nutrition at Rutgers University from 1978 to 1982. He received a B.S. in nutritional sciences and an M.S. in biochemistry and nutrition from the University of Arizona, in 1970 and 1973, respectively. He earned his Ph.D. in nutritional sciences from the University of Wisconsin-Madison in 1978.

Dr. Gary Smith: Upenn Professor of Population Biology and Epidemiology
Dr Smith has been Chief of the Section of Epidemiology and Public Health in the School of Veterinary Medicine since 1995. He has a secondary appointment in the Department of Biostatistics and Epidemiology at Penn's School of Medicine and is an Associate Scholar in the Center for Clinical Epidemiology and Biostatistics as well as being an affiliated faculty member of Penn's Institute for Strategic Threat Analysis and Response.

Originally from Britain, where he was awarded degrees in Zoology, Education, and Ecology from the Universities of Oxford, Cambridge and York, Dr Smith has worked in the United States since 1986. In 1992 he served on an FAO/WHO Expert Committee on the implementation of farm models in the developing world (Nairobi, Kenya); he served on the Pennsylvania Food Quality Assurance Committee recently between 1995-1996 and in 1999 he was a member of a European Union Expert Committee on Bovine Spongiform Encephalopathy risk (Brussels). Dr Smith has served on the editorial boards of Parasitology Today, The International Journal of Parasitology, The Veterinary

Quarterly, and has recently taken up a position on the new monthly journal, Frontiers in Ecology and the Environment. His research deals with the epidemiology and population dynamics of infections disease in humans and wild and domestic animal species. He has extensive experience of mathematical modeling in the context of infectious and parasitic disease control strategies (included the evolution of drug resistance) and has published case-control studies on a range of infectious diseases of animals and humans.

Dr. Bernard Goldstein: Professor – Pitt Graduate School of Public Health
Dr. Goldstein is Dean of the University of Pittsburgh Graduate School of Public Health. Previously he served as the Director of the Environmental and Occupational Health Sciences Institute, a joint program of Rutgers, the State University of New Jersey and the University of Medicine and Dentistry of New Jersey (UMDNJ) - Robert Wood Johnson Medical School. He was also Principal Investigator of the Consortium of Risk Evaluation with Stakeholder Participation (CRESP).

Dr. Goldstein was Assistant Administrator for Research and Development, U.S. Environmental Protection Agency, 1983-1985. His past activities include Member and Chairman of the NIH Toxicology Study Section and EPA's Clear Air Scientific Advisory Committee; Chair of the Institute of Medicine Committee on the Role of the Physician in Occupational and Environmental Medicine, the National Research Council Committees on Biomarkers in Environmental Health Research and Risk Assessment Methodology and the Industry Panel of the World Health Organization Commission on Health and Environment. He is a member of the Institute of Medicine where he has chaired the Section on Public, Biostatistics, and Epidemiology.

James Adams: President, Wenger Foods
James Adams earned a Bachelor of Science degree in Poultry Technology & Management from Penn State in 1980. Currently working as the President and Chief Operating Officer for Wenger's Feed Mill, Inc. in Rheems, PA and is a member of their Board of Directors. Has developed a feed and bird health quality assurance laboratory; has formulated feed for poultry and swine; and currently oversees all operational aspects of the company, coordinates the management team, and directs strategic planning.

Served as the Chairman of the Board of the Pennsylvania Poultry Federation, Chairman of the Poultry Health Committee, and Chairman of PennAg's Poultry Council. In addition, he served two terms as President for PennAg Industries Association in Harrisburg, as well as Vice President of Landis Valley Association for the Landis Valley Farm Museum. He worked with the industry through three Avian Influenza outbreaks and helped develop the Pennsylvania Egg Quality Assurance Program. In January 2003, he was appointed as a board member for the U.S. Poultry & Egg Association headquartered in Atlanta, Georgia. He currently is a member of the Ag Committee of the Lancaster County Chamber of Business and Industry and is an Alternate Member for The American Egg Board. Adams earned a Master of Management in Business Administration degree from Penn State in 1997 and lives in Mount Joy, PA with his wife and three dogs.

Walt Peechatka: Executive Vice President, PennAg Industries
A native of Monroe County, Pennsylvania, Walt Peechatka graduated from the Pennsylvania State University in 1961 with a B.S. in Forestry. After college, Walt went on to the United States Army from 1962 to 1964. From there he served as a service forester and as the Assistant Supervisor of Cooperative Forest Management for the Bureau of Forestry of the Pennsylvania Department of Forest & Waters and as a Program Specialist for Watershed Programs for the State Soil & Water Conservation Commission in the Department of Agriculture. Walt has also served as Director, Bureau of Soil & Water Conservation of the Pennsylvania Department of Environmental Resources, Executive Vice President – Soil Conservation Society of America in Ankeny, Iowa, Director of the Bureau of Plant Industry for the Pennsylvania Department of Agriculture, and Deputy Secretary for Regulatory Programs for the Pennsylvania Department of Agriculture.

In 1995, Walt served as Acting Secretary for the Department of Agriculture under Governor Tom Ridge. In March 1995, he was appointed as Executive Deputy Secretary of Agriculture. His current position, which he obtained in 1997, is Executive Vice President of PennAg Industries Association. PennAg represents 600 agricultural businesses including feed/grain companies, seed/fertilizer and pesticide businesses, most of the large poultry/swine companies, and allied agricultural businesses.

In 2002, Walt was elected to the Penn State Board of Trustees representing agricultural societies. He may be the first forester, and Penn State Mont Alto graduate to serve on the Penn State governing body. He currently serves as Vice Chairman of the Board's Finance and Physical Plant Committee, on the Board's eight-person Executive Committee, and as a member of the Architect/Engineer Election Subcommittee.

Lew Gardner: Dairy Producer
Mr. Gardner has been a dairy owner/operator since 1980. He currently serves as chair of Dairy Farmers of America's Northeast Area Council. Mr. Lewis is a member of Pennsylvania Dairy Stockholders, National Milk Producers Federation, Pennsylvania dairy promotion, ADADC New York, National Dairy board, and New York Cheese Makers. He is the former president of RCMA, Eastern Milk Producers, vice chair MMI, chair of Pennsylvania stakeholders, NMPF board and NCFC board of directors.

Keith Masser: President, PA Cooperative Potato Growers
Mr. Masser is a seventh-generation potato farmer and is currently the CEO of Masser Potato Farm. In 1998 Masser was awarded the honor of Master Farmer. Keith holds a graduate of Penn State University with a degree in agricultural engineering.

In addition to his family potato farm, Masser is currently the president of the Pennsylvania Cooperative Potato Growers, vice-president of the National Potato Council. Masser is also a former president of the National Potato Promotion Board and a former vice president of the National Potato Council for government affairs

Carl Schaffer: President, Pennsylvania Farm Bureau
Carl T. Shaffer of Mifflinville, Pennsylvania was elected president of the Pennsylvania Farm Bureau in November, 2004. Previously, he served as vice president of the Pennsylvania Farm Bureau from April 1996 to November 2004. He is the past chairman of USDA's Farm Service Agency State Committee. He serves as president of the Pennsylvania Foundation for Agriculture Awareness, which sponsors the annual Ag in the Classroom workshops for elementary school teachers. He is a member of the state Department of Environmental Protection Agricultural Advisory Board, and serves on the board of the Pennsylvania Vegetable Marketing and Research Program.

Mr. Shaffer owns 300 acres and rents another 700 acres of farmland, growing grain and vegetables. He employs two full-time employees and a part- time worker. He grows corn and wheat for cash sale, and grows snap beans and carrots for processing. He also provides custom harvesting and trucking of snap beans for area farms. In 1996, Shaffer was named a Pennsylvania Master Farmer. The award was presented in recognition of his farming and leadership achievements by Pennsylvania Farmer magazine and The Pennsylvania State University Cooperative Extension Service.

Prior to becoming a PFB Board member, Mr. Shaffer was a local farm leader, serving terms as board member, vice president, president and legislative chairman of the Columbia County Farm Bureau.